Contents

Bank Handlowy w Warszawie S.A. Group

Opinion and Report of the Independent Auditor

Financial Year ended 31 December 2009

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 St., which comprise the consolidated balance sheet as at 31 December 2009, with total assets and total liabilities and equity of PLN 37,633,063 thousand, the consolidated income statement for the year then ended with a net profit of PLN 504,399 thousand and the consolidated statement of comprehensive income for the year then ended with a total comprehensive income of PLN 566,698 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 573.580 thousand, the consolidated statement of cash flows for the year then ended with an increase in cash amounting to PLN 525,861 thousand and notes to the consolidated financial statements, comprising of a summary significant accounting policies and other explanatory information.

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 2009, No. 152, item 1223 with amendments) ("the Accounting Act") 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 from 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 2009 and 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 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 with amendments) and the information is consistent with the consolidated financial statements.

Signed on the Polish original

....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 90121
Paweł Ryba,
Director

Signed on the Polish original

....
On behalf of KPMG Audyt Sp. z o. o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9941
Bożena Graczyk,
Director

Warsaw, 10 March 2010

Bank Handlowy w Warszawie S.A. Group

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

Financial Year ended 31 December 2009

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

ul. Senatorska 16
00-923 Warszawa
Polska

1.1.3 Registration of the Parent Company in the National Court Register

Registration court:	District Court in Warsaw, 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 2009, 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 2009, the following subsidiaries of the Group were not consolidated:
• Bank Rozwoju Cukrownictwa S.A. in liquidation,
• Handlowy Investments II S.a.r.l.,
• Handlowy Inwestycje Sp. z o.o. in liquidation.

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 0.3% 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 Company was established for an indefinite period under the terms of its articles of association dated 13 April 1870.

The share capital of the Parent Company amounted to PLN 522,638,400 as at 31 December 2009 divided into 130,659,600 ordinary shares with a nominal value of PLN 4 each.

As at 31 December 2009, 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%
Others< 5%	32,664,900	25.0%	130,659	25.0%
	130,659,600	100.0%	522,638	100.0%

1.4.2 Management of the Parent Company

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

At 31 December 2009, the Management Board of the Parent Company was comprised of the following members:
• Sławomir S. Sikora – President of the Management Board,
• Michał H. Mrożek – Vice-president of the Management Board,
• Sonia Wędrychowicz-Horbatowska – Vice-president of the Management Board,
• Witold Zieliński – Vice-president of the Management Board,
• Iwona Dudzińska – Member of the Management Board.

Until 30 October 2009 Mr. Peter Rossiter was a Vice-president of the Management Board of the Parent Company.

On 18 September 2009 Ms. Iwona Dudzińska was appointed a Member of the Management Board of the Parent Company.

There were no changes in the composition of the Parent Company's Management Board during 2010, up to the date of the audit opinion and report on the Parent Company's financial statements.

1.4.3 Scope of activities

The business activities listed in the Parent Company's articles of association 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 cards 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 intermediary in money transfers and foreign exchange settlements,
• issuing bank's securities,
• rendering services related 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, according to their articles of association, include the following:
• Dom Maklerski Banku Handlowego SA – 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 2008 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 18 June 2009.

The closing balances as at 31 December 2008 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 18 June 2009 and were published in Monitor Polski B No. 2374 on 26 November 2009.

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 St., and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2009, with total assets and total liabilities and equity of PLN 37,633,063 thousand, the consolidated income statement for the year then ended with a net profit of PLN 504,399 thousand and the consolidated statement of comprehensive income for the year then ended with a total comprehensive income of PLN 566,698 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 573,580 thousand, the consolidated statement of cash flows for the year then ended with an increase in cash amounting to PLN 525,861 thousand and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated 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 30 November 2009, concluded on the basis of the resolution of the Supervisory Board dated 19 March 2009 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act and International Standards on Auditing.

We have conducted the interim audit of the consolidated financial statements in the Parent Company's head office during the period from 30 November 2009 to 31 December 2009.

We audited the consolidated financial statements in the Parent Company's head office during the period from 30 November 2009 to 10 March 2010.

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 of Managements Board 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 2009 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.	31.12.2009 r.	audit in progress
Handlowy-Leasing Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2009 r.	audit in progress
Handlowy Investments S.A.	KPMG Audit S.a.r.l.	28.02.2010 r.	audit not started yet
PPH Spomasz Sp. z o.o. w likwidacji		unaudited	

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 2009 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 2009 amount to 0.05% 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	31.12.2009 PLN '000	% of total assets	31.12.2008 PLN '000	% of total assets
Cash and balances with Central Bank	4,113,355	10.9	3,530,977	8.3
Financial assets held for trading	5,397,125	14.3	7,885,488	18.6
Debt securities available-for-sale	8,290,225	22.0	10,814,828	25.5
Equity investments accounted for under the equity method	56,895	0.2	56,469	0.1
Other equity investments	24,140	0.1	11,095	-
Loans and advances	16,777,255	44.6	17,581,499	41.3
to financial sector	*4,802,562*	*12.8*	*3,695,522*	*8.7*
to non-financial sector	*11,974,693*	*31.8*	*13,885,977*	*32.6*
Property and equipment	505,192	1.3	571,947	1.3
land, buildings and equipment	*486,884*	*1.2*	*553,639*	*1.2*
investment property	*18,308*	*0.1*	*18,308*	*0.1*
Intangible assets	1,282,574	3.4	1,283,326	3.0
Income tax assets	476,372	1.3	336,290	0.8
Other assets	690,384	1.8	443,159	1.0
Non-current assets held-for-sale	19,546	0.1	35,267	0.1
TOTAL ASSETS	**37,633,063**	**100.0**	**42,550,345**	**100.0**

EQUITY AND LIABILITIES	31.12.2009 PLN '000	% of total assets	31.12.2008 PLN '000	% of total assets
Liabilities				
Due to Central Bank	980,446	2.6	-	-
Financial liabilities held for trading	3,108,493	8.3	6,806,790	16.0
Financial liabilities valued at amortized cost	26,359,837	70.0	29,345,498	68.9
deposits from	*25,307,218*	*67.3*	*27,857,332*	*65.4*
financial sector	*4,735,260*	*12.6*	*7,922,260*	*18.6*
non-financial sector	*20,571,958*	*54.7*	*19,935,072*	*46.8*
other liabilities	*1,052,619*	*2.8*	*1,488,166*	*3.5*
Provisions	49,390	0.1	24,578	0.1
Income tax liabilities	-	-	77	-
Other liabilities	935,508	2.5	747,593	1.8
Total liabilities	**31,433,674**	**83.5**	**36,924,536**	**86.8**
Equity				
Issued capital	522,638	1.4	522,638	1.2
Share premium	3,030,546	8.1	3,029,703	7.1
Revaluation reserve	(81,026)	0.2	(144,110)	0.3
Other reserves	2,225,712	5.9	1,627,692	3.8
Retained earnings	501,519	1.3	589,886	1.4
Total equity	**6,199,389**	**16.5**	**5,625,809**	**13.2**
TOTAL EQUITY AND LIABILITIES	**37,633,063**	**100.0**	**42,550,345**	**100.0**

2.1.2 Consolidated income statement

	01.01.2009-31.12.2009 PLN '000	01.01.2008-31.12.2008 PLN '000
Interest and similar income	2,098,938	2,318,624
Interest expense and similar charges	(593,557)	(952,874)
Net interest income	**1,505,381**	**1,365,750**
Fee and commission income	660,011	721,122
Fee and commission expense	(103,997)	(102,177)
Net fee and commission income	**556,014**	**618,945**
Dividend income	6,451	11,761
Net trading income and revaluation	269,248	259,342
Net gain on investment (deposit) securities	77,845	57,184
Net gain on investment (capital) instruments	3,437	(168)
Other operating income	208,635	125,349
Other operating expenses	(50,005)	(35,924)
Net other operating income	**158,630**	**89,425**
General administrative expenses	(1,300,208)	(1,398,793)
Depreciation expense	(78,847)	(97,115)
Profit/ (loss) on sale of tangible fixed assets	2,698	3,255
Net impairment losses	(545,809)	(153,080)
Operating income	**654,840**	**756,506**
Share in profits / (losses) of undertakings accounted for under the equity method	426	2,656
Net profit (loss)	**655,266**	**759,162**
Income tax expense	(150,867)	(158,728)
Net profit (loss)	**504,399**	**600,434**
Weighted average number of ordinary shares	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	3.86	4.60
Diluted net profit per ordinary share (in PLN)	3.86	4.60

2.2 Consolidated statement of comprehensive income

Profit/(loss) for the period	*504,399*	*600,434*
Other comprehensive income:		
Net change in fair value of available-for-sale financial assets	63,084	38,340
Foreign currency translation differences	(785)	5,548
Other comprehensive income for the period, net of income tax	***62,299***	***43,888***
Total comprehensive income for the period	***566,698***	***644,322***

2.3 Selected financial ratios

	2009	2008
Total assets (PLN '000)	37,633,063	42,550,345
Profit (loss) before income tax (PLN '000)	655,266	759,162
Profit (loss) for the period (PLN '000)	504,399	600,434
Shareholders' equity (PLN '000)*	5,694,990	5,025,375
Return on equity	8.86%	11.95%
Receivables to total assets	44.58%	41.32%
Income generating assets to total assets	92.10%	93.73%
Interest bearing liabilities to total liabilities	80.91%	84.96%

* *excluding current-year net profit*

2.4 Interpretation of selected financial ratios

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

Total assets as of 31 December 2009 decreased by PLN 4,917,282 thousand, i.e. 11.56% and amounted to PLN 37,633,063 thousand. On the asset side the decrease followed a decrease in financial assets held for trading by PLN 2,488,363 thousand, i.e. 31.56% and in debt securities available-for-sale by PLN 2,524,603 thousand, i.e. 23.34%.

Total equity and liabilities decreased mainly as a result of the decrease of total position balance had the decrease in financial liabilities held for trading by PLN 3,698,297 thousand, i.e. 54.33% as well as of financial liabilities carried at amortized cost by PLN 2,985,661 thousand, i.e. 10.17%. Changes in financial assets and liabilities held for trading resulted mainly from decrease in prices and trading volumes of foreign currency financial instruments in 2009 when compared to prior year. The decrease was partially off-set by an increase in liabilities due to Central Bank by PLN 980,446 thousand.

Profit before tax for the year ended 31 December 2009 accounted for PLN 655,266 thousand and decreased by PLN 103,896 thousand, i.e. 13.69%, comparing to the year ended 31 December 2008. The decrease in the gross profit resulted mainly from the net impairment charges, which in 2009 increased by PLN 392,729 thousand, i.e. 256.55% and amounted to PLN 545,509 thousand. The decrease was partially off-set by the increase in net interest income by PLN 139,631 thousand, 10.22% and in other operating income by PLN 83,286 thousand, i.e. 66.44%, which resulted from the refund of PLN 124,643 thousand of VAT overpaid in prior years.

Net profit for the year ended 31 December 2009 amounted to PLN 504,399 thousand and decreased by PLN 96,035 thousand, i.e. 15.99%, compared to the year ended 31 December 2008.

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. entity, 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 consolidated entities, preparing their financial statements as at a date different than the balance sheet date of the financial statements of the Parent Company, 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 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 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 end of the reporting period 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.

3.5 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.

3.6 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.

3.7 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.

3.8 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 information, is, in all material respects, presented correctly and completely. The notes to the consolidated financial statements should be read in conjunction with the consolidated financial statements taken as a whole.

3.9 Report of the Management Board of the Parent Company 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 with amendments) and the information is consistent with the consolidated financial statements.

3.10 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 2009, we have issued an unqualified.

Signed on the Polish original

Signed on the Polish original

....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 90121
Paweł Ryba,
Director

....
On behalf of KPMG Audyt Sp. z o. o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9941
Bożena Graczyk,
Director

Warsaw, 10 March 2010

Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2009

Selected financial data

	In PLN '000		In EUR '000**	
	2009	2008	2009	2008
Interest income	2,098,938	2,318,624	483,559	656,443
Fee and commission income	660,011	721,122	152,055	204,162
Profit before tax	655,266	759,162	150,962	214,932
Net profit	504,399	600,434	116,205	169,993
Total comprehensive income	566,698	644,322	130,558	182,419
Increase/decrease of net cash	525,861	(138,793)	128,003	(39,295)
Total assets	37,633,063	42,550,345	9,160,475	10,198,050
Liabilities due to Central bank	980,446	-	238,656	-
Financial liabilities valued at amortized cost	26,359,837	29,345,498	6,416,396	7,033,242
Shareholders' equity	6,199,389	5,625,809	1,509,028	1,348,339
Share capital	522,638	522,638	127,218	125,261
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	47.45	43.06	11.55	10.32
Earnings per ordinary share (PLN / EUR)	3.86	4.60	0.89	1.30
Diluted net profit per ordinary share (in PLN / EUR)	3.86	4.60	0.89	1.30
Dividend declared or paid per share (in PLN / EUR)*	-	-	-	-

* *As at the date of this report the Bank's Management Board has not made a decision concerning the amount of dividend for 2009 profit. According to Act 26a/2009 of General Meeting of the bank from 18 June 2009, no dividend was paid for 2008.*

** *The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet - NBP mid exchange rate as at 31 December 2009 - PLN 4.1082 (as at 31 December 2008: PLN 4.1724); for the income statement - the arithmetic average of month - end NBP exchange rates in 2009 – PLN 4.3406 (in 2008: PLN 3.5321).*

Consolidated income statement

in thousands of PLN	For a period	2009	2008
	Note		
Interest and similar income	4	2,098,938	2,318,624
Interest expense and similar charges	4	(593,557)	(952,874)
Net interest income	4	**1,505,381**	**1,365,750**
Fee and commission income	5	660,011	721,122
Fee and commission expense	5	(103,997)	(102,177)
Net fee and commission income	5	**556,014**	**618,945**
Dividend income	6	6,451	11,761
Net income on financial instruments and revaluation	7	269,248	259,342
Net gain on investment debt securities	8	77,845	57,184
Net profit on investment equity instruments	9	3,437	(168)
Other operating income	10	208,635	125,349
Other operating expenses	10	(50,005)	(35,924)
Net other operating income	10	**158,630**	**89,425**
General administrative expenses	11	(1,300,208)	(1,398,793)
Depreciation expense	12	(78,847)	(97,115)
Profit/(loss) on sale of tangible fixed assets	13	2,698	3,255
Net impairment charges	14	(545,809)	(153,080)
Operating income		**654,840**	**756,506**
Share in profits/(losses) of undertakings accounted for under the equity method		426	2,656
Profit before tax		**655,266**	**759,162**
Income tax expenses	15	(150,867)	(158,728)
Net profit		**504,399**	**600,434**
Weighted average number of ordinary shares (in pcs)	16	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	16	3.86	4.60
Diluted net profit per ordinary share (in PLN)	16	3.86	4.60
Including:			
Net profit for Bank's shareholders		**504,399**	**600,434**
Net profit for minority shareholders		-	-

Explanatory notes on pages: 21-74 are integral parts of financial consolidated statement.

Consolidated statement of comprehensive income

In thousand of PLN	For a period	2009	2008
	Note		
Net income		**504,399**	**600,434**
Other comprehensive income:			
Valuation of net financial assets available-for-sale	17	63,084	38,340
Foreign exchange differences		(785)	5,548
Other comprehensive income after tax		**62,299**	**43,888**
Total comprehensive income		**566,698**	**644,322**
Including:			
Comprehensive incomes due to shareholders of predominant unit		566,698	644,322
Comprehensive income due to minority shareholders		-	-

Notes on pages 21-74 are integral parts of consolidated financial statement.

Consolidated balance sheet

State on day In thousands of PLN	Note	31.12.2009	31.12.2008
ASSETS			
Cash and balances with central bank	18	4,113,355	3,530,977
Financial assets held-for-trading	19	5,397,125	7,885,488
Debt securities available-for-sale	20	8,290,225	10,814,828
Equity investments accounted for under the equity method	21	56,895	56,469
Other equity investments	22	24,140	11,095
Loans and advances	23	16,777,255	17,581,499
to financial sector		*4,802,562*	*3,695,522*
to non-financial sector		*11,974,693*	*13,885,977*
Property and equipment	25	505,192	571,947
land, buildings and equipment		*486,884*	*553,639*
investment property		*18,308*	*18,308*
Intangible assets	26	1,282,574	1,283,326
Income tax assets	28	476,372	336,290
current		*97,657*	*7,862*
deferred		*378,715*	*328,428*
Other assets	29	690,384	443,159
Non-current assets held-for-sale	30	19,546	35,267
Total assets		**37,633,063**	**42,550,345**
LIABILITIES			
Liabilities due to Central Bank	31	980,446	-
Financial liabilities held-for-trading	19	3,108,493	6,806,790
Financial liabilities valued at amortized cost	32	26,359,837	29,345,498
deposits from		*25,307,218*	*27,857,332*
financial sector		*4,735,260*	*7,922,260*
non-financial sector		*20,571,958*	*19,935,072*
other liabilities		*1,052,619*	*1,488,166*
Provisions	33	49,390	24,578
Income tax liabilities	28	-	77
Other liabilities	34	935,508	747,593
Total liabilities		**31,433,674**	**36,924,536**
EQUITY			
Share capital	36	522,638	522,638
Share premium	36	3,030,546	3,029,703
Revaluation reserve	36	(81,026)	(144,110)
Other reserves	36	2,225,712	1,627,692
Retained earnings		501,519	589,886
Total equity		**6,199,389**	**5,625,809**
Total liabilities and equity		**37,633,063**	**42,550,345**

Explanatory notes on pages: 21-74 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	Shares without control performance	Total equity
Balance as at 1 January 2009	**522,638**	**3,029,703**	**(144,110)**	**1,627,692**	**589,886**	**-**	**5,625,809**
Total comprehensive income	-	-	63,084	(785)	504,399	-	566,698
Valuation of capital awards program, including:	-	-	-	6,937	-	-	6,937
- valuation changes	-	-	-	*8,917*	-	-	*8,917*
- deferred income tax	-	-	-	*(1,980)*	-	-	*(1,980)*
Dividends paid	-	-	-	-	(55)	-	(55)
Transfers to capital	-	843	-	591,868	(592,711)	-	-
Closing balance as at 31 December 2009	**522,638**	**3,030,546**	**(81,026)**	**2,225,712**	**501,519**	**-**	**6,199,389**

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Shares without control performance	Total equity
Balance as at 1 January 2008	**522,638**	**3,028,809**	**(182,450)**	**1,454,355**	**779,732**	**-**	**5,603,084**
Total comprehensive income	-	-	38,340	5,548	600,434	-	644,322
Dividends 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: 21-74 are integral parts of financial consolidated statement.

Consolidated statement of cash flows

In thousands of PLN	For a period	2009	2008
A. Cash flows from operating activities			
I. Net profit (loss)		**504,399**	**600,434**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:		**710,789**	**(167,543)**
Current and deferred tax income, recognized in income statement		150,867	158,728
Share in net profits/(losses) of undertakings accounted for under the equity method		(426)	(2,656)
Amortization		78,847	97,115
Impairment		516,903	158,134
Net provisions (recoveries)		28,906	(5,054)
Income on sale of investments		(3,046)	(6,180)
Received interest		2,002,273	2,230,562
Retained interest		(595,009)	(974,434)
Other adjustments		(1,611,974)	(1,328,591)
Cash flows from operating profits before changes in operating assets and liabilities		**567,341**	**327,624**
Increase/decrease in operating assets (excl. cash and cash equivalents)		**5,245,301**	**(3,737,292)**
Increase/decrease in credit, loans and receivables		527,716	3,332,889
Increase/decrease in debt securities available for sale		2,424,202	(4,286,486)
Increase/decrease in equity investments		(13,631)	8,071
Increase/decrease in assets held-for-trading		2,530,234	(2,747,754)
Increase/decrease in assets held-for-sale		888	(22,622)
Increase/decrease in other assets		(224,108)	(21,390)
Increase/decrease in operating liabilities (excl. cash and cash equivalents)		**(5,101,853)**	**3,242,125**
Increase/decrease in advances from central bank		973,058	-
Increase/decrease in financial liabilities valued at amortized cost		(2,551,988)	958,301
Increase/decrease in liabilities held-for-trading		(3,779,851)	2,433,644
Increase/decrease in other liabilities		256,928	(149,820)
Cash flows from operating activities		**1,215,188**	**432,891**
Income taxes (paid) refunded		**(301,954)**	**(135,540)**
III. Net cash flows from operating activities		**913,234**	**297,351**
B. Cash flows from investing activities			
Cash payments to acquire tangible assets		(31,786)	(75,531)
Cash receipts from the sale of tangible assets		11,398	18,942
Cash payments to acquire intangible assets		(15,503)	(18,422)
Cash receipts from the disposal of tangible assets available-for-sale		15,679	-
Other income from investing activities		1	4,164
Net cash flows from investing activities		**(20,211)**	**(70,847)**
C. Cash flows from financing activities			
Dividends paid		(54)	(621,598)
Inflows from long-term loans from financial sector		21,530	241,110
Repayment of long-term loans from financial sector		(387,706)	(38,104)
Net cash flows from financing activities		**(366,230)**	**(418,592)**
D. Effect of exchange rate changes on cash and cash equivalent		**(932)**	**53,295**
E. Increase/(Decrease) in net cash		**525,861**	**(138,793)**
F. Cash at the beginning of reporting period		**3,607,530**	**3,746,323**
G. Cash at the end of reporting period (see note 43)		**4,133,391**	**3,607,530**

Explanatory notes on pages: 21-74 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	
		31.12.2009	31.12.2008
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. under liquidation	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 2009 the financial data amounted 0.2% of the Group's assets (as at 31 December 2008 – 0.2%) and 0.3% of Group's net profit (as at 31 December 2008 – 0.1%), 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 2009 to 31 December 2009. The comparable financial data is presented for the period from 1 January 2008 to 31 December 2008. 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 for fair value through the profit and loss account, including derivatives and available-for-sale assets with the exception of assets and liabilities whose fair value cannot be estimated in a reliable way. Other assets and liabilities are presented at amortized cost (loans and receivables, financial liabilities other than valued at fair value through the profit and loss account) or at purchase method decreased by impairment losses.

In 2009 the following changes in accounting principles were adopted by the Group:

- the change, in reporting according to operating segments related to IFRS 8 'Operating Segments', which came into effect on 1 January 2009 and replaced IAS 14 'Segment reporting'. Detail information about segments is presented in Note No. 3.
- application of the Interpretation No. 13 of the International Financial Reporting Interpretations Committee „Customer Loyalty Programmes" (IFRIC 13). The interpretation deals with the way the transaction income should be recognized in case the customers are granted customer loyalty award credits, which is considered a separate component of a transaction. In view of that the transaction income should be split between award credits and other sale transaction components. The part attributable to the award credits, determined in respect of their fair value, is deferred until the obligations to customers resulting from award credits are fulfilled. The Bank grants its customers loyalty award credits in transactions made by credit cards. The impact of the adoption of IFRCI 13 is not significant in respect of the consolidated financial statement.

Standards or Interpretations awaiting European Union's approval:

- IFRS 9 "Financial Instruments". In November 2009 the International Accounting Standards Board issued IFRS 9 „Financial Instruments", which changes IAS 39 provisions in respect of classification and measurement of financial assets. The main change is classification of financial assets into one of two categories – measured at amortized cost or at fair value. The new standard will be applicable for annual periods beginning on or after 1 January 2013 with earlier application permitted.
- changes to IAS 18 "Revenues" concerning assessment when an entity acts as an agent and when as a principal.

The Group has not completed the assessment of the impact of changes to standards awaiting European Union's endorsement.

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 form the basis to make estimates of the balance sheet value of assets and liabilities whose value cannot be estimated on the basis of other sources. Actual results could differ from those estimates.

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

In order to retain comparability of the financial data with the current period presentation, changes have been introduced to the way the financial data for 2008 have been presented, compared with the data previously published in the "Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2008". The changes concern the manner of grouping and presentation of financial data in selected explanatory notes and have not impacted the balance sheet footing or the financial result of the Group.

Among those changes the most important concern presentation of data in the note below:

Consolidated Income Statement as at 31 December 2008

In thousand of PLN	Note 22 Loans and advances			
Item	Report for 2008	Report for 2009	Difference	Change
Fee and commission income				
Insurance and investment products	216,640	193,319	(23,321)	Fees concerning to cash loans and other commission
Payment and credit cards	166,934	166,934	-	
Payment services	130,510	130,510	-	
Trust services	78,266	78,266	-	
Cash loans fees	-	14,862	14,862	Fees concerning to cash loans
Brokerage operations	56,432	56,432	-	
Cash management	35,106	35,106	-	
Off-balance sheet guarantee liabilities	14,440	14,440	-	
Off-balance sheet financial liabilities	6,733	6,733	-	
Other	16,061	24,520	8,459	Other commission
	721,122	**721,122**		
Fee and commission expense:				
Payment and credit cards	(53,106)	(53,106)	-	
Brokerage operations	(29,195)	(29,195)	-	
Fees paid to the National Depository for Securities (KDPW)	(8,252)	(8,252)	-	
Brokers fees	(5,279)	(5,279)	-	
Other	(6,345)	(6,345)	-	
	(102,177)	**(102,177)**		
	618,945	**618,945**	-	

Consolidated Balance sheet as at 31 December 2008

In thousand of PLN	Note 22 Loans and advances			
Item	Report for 2008	Report for 2009	Difference	Change
Loans and advances to financial sector				
Gross value	3,773,149	3,773,149	-	
Impairment write-offs	(77,627)	(77,627)	-	
Net value	3,695,522	3,695,522	-	
Loans and advances to non- financial sector				
Gross value	15,311,491	15,273,143	(38,348)	Item "Loans and advances" - receivables in respect of matured transaction on derivative instruments
Impairment write-offs	(1,425,514)	(1,387,166)	38,348	
Net value	13,885,977	13,885,977	-	
Loans and advances	**17,581,499**	**17,581,499**	**-**	

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 Bank 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 2009	31 December 2008
1 USD	2.8503	2.9618
1 CHF	2.7661	2.8014
1 EUR	4.1082	4.1724

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 rate 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 rate 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 rate 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 is based on 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 is not closely related to the risks and characteristics of the host contract and the host contract is not measured at fair value in the profit and loss account.

Hedge accounting

The 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 individually not 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

When a decline in the fair value of an available for sell financial assets has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

The amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value loss any impairment loss recognized previously in profit or loss.

Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit and loss.

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and this increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed with the amount of the reversal recognized in profit or 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)

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. 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 2009.

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.

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 45. 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 rate method.

The effective interest rate method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that precisely discounts the estimated 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.

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

Other operating income and expenses

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

Income tax

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

A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities, in the 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. 38 letter a) 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 – valuation model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

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

Due to considerable increase in counterparty credit risk, the Group has made an additional assessment of the risk related to derivative transactions entered into with the Group'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 Group 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 2008 and 31 December 2009. 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

Since 1 January 2009 the Group has applied International Financial Reporting Standards (IFRS) 8 "Operating segments". Under this Standard an operating segment is a separable component of the Group that engages in business activities from which it earns revenues and incurs expenses (including intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board, as chief operating decision maker of the Group, in order to allocate resources and assess its performance.

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

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

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 Group's operating activity is led only in Poland.

Income statement by business segment

For the period In thousands of PLN	2009			2008		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	753,295	752,086	1,505,381	564,933	800,817	1,365,750
Internal net interest income , including:	*40,227*	*(40,227)*	*-*	*(10,169)*	*10,169*	*-*
internal incomes	*40,227*	*-*	*40,227*	*-*	*10,169*	*10,169*
internal costs	*-*	*(40,227)*	*(40,227)*	*(10,169)*	*-*	*(10,169)*
Net fee and commission income	247,332	308,682	556,014	259,477	359,468	618,945
Internal net fee and commission income, including:	*14,945*	*(14,945)*	*-*	*2,995*	*(2,995)*	*-*
internal incomes	*14,945*	*-*	*14,945*	*2,995*	*-*	*2,995*
internal costs	*-*	*(14,945)*	*(14,945)*	*-*	*(2,995)*	*(2,995)*
Dividend income	3,715	2,736	6,451	3,571	8,190	11,761
Net income on financial instruments and revaluation	229,907	39,341	269,248	220,401	38,941	259,342
Net gain on investment (deposit) securities	77,845	-	77,845	57,184	-	57,184
Net gain on investment (capital) instruments	3,437	-	3,437	(168)	-	(168)
Other operating income	63,648	(29,661)	33,987	80,601	8,824	89,425
General administrative expenses	(563,720)	(736,488)	(1,300,208)	(596,924)	(801,869)	(1,398,793)
Depreciation expense	(47,394)	(31,453)	(78,847)	(64,873)	(32,242)	(97,115)
Profit/(loss) on sale of tangible fixed assets	1,881	817	2,698	2,742	513	3,255
Net impairment losses	(294,293)	(251,516)	(545,809)	(63,616)	(89,464)	(153,080)
Other incomes unattributed to segments*	-	-	124,643	-	-	-
Operating income	**475,653**	**54,544**	**654,840**	**463,328**	**293,178**	**756,506**
Share in profits/(losses) of undertakings accounted for under the equity method	426	-	426	2,656	-	2,656
Profit before tax	**476,079**	**54,544**	**655,266**	**465,984**	**293,178**	**759,162**
Income tax expenses			(150,867)			(158,728)
Net profit			**504,399**			**600,434**

** Correction of settlement of accounts with IRS in respect of goods and services tax (see note 10)*

State on day In thousands of PLN	31.12.2009			31.12.2008		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Assets including:	**31,608,909**	**6,024,154**	**37,633,063**	**36,664,647**	**5,885,698**	**42,550,345**
Assets valuated at equity method	*56,895*	*-*	*56,895*	*56,469*	*-*	*56,469*
Non-current assets held-for-sale	*2,999*	*16,547*	*19,546*	*12,645*	*22,622*	*35,267*
Liabilities	**28,370,043**	**9,263,020**	**37,633,063**	**34,703,600**	**7,846,745**	**42,550,345**
obligations	*24,369,661*	*7,064,013*	*31,433,674*	*30,766,848*	*6,157,688*	*36,924,536*

4. Interest income

In thousands of PLN	2009	2008
Interest and similar income from:		
Central Bank	41,173	65,158
Placements in banks	59,362	322,685
Loans and advances, of which:	1,288,664	1,458,455
financial sector	*34,561*	*22,318*
non-financial sector	*1,254,103*	*1,436,137*
Debt securities available-for-sale	564,025	364,035
Debt securities held-for-trading	145,714	108,291
	2,098,938	**2,318,624**
Interest expense and similar charges for:		
Central Bank	(32,442)	-
Deposits from banks	(32,169)	(74,745)
Deposits from financial sector (excl. banks)	(102,863)	(139,726)
Deposits from non-financial sector	(408,705)	(696,649)
Loans and advances received	(17,378)	(41,754)
	(593,557)	**(952,874)**
	1,505,381	**1,365,750**

Net interest income for 2009 includes interest received on impaired loans, of PLN 19,560 thousand (for 2008: PLN 17,152 thousand)

5. Net fee and commission income

In thousands of PLN	2009	2008
Fee and commission income:		
Insurance and investment products	142,163	193,319
Payment and credit cards	183,986	166,934
Payment services	122,410	130,510
Custody services	63,468	78,266
Cash loan fees	14,484	14,862
Brokerage operations	51,646	56,432
Cash management	32,410	35,106
Off-balance sheet guarantee liabilities	16,002	14,440
Off-balance sheet financial liabilities	8,237	6,733
Other	25,205	24,520
	660,011	**721,122**
Fee and commission expense:		
Payment and credit cards	(64,372)	(53,106)
Brokerage operations	(19,072)	(29,195)
Fees paid to the National Depository for Securities (KDPW)	(8,615)	(8,252)
Brokers fees	(3,997)	(5,279)
Other	(7,941)	(6,345)
	(103,997)	**(102,177)**
	556,014	**618,945**

The net commission result for 2009 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 193,714 thousand (for 2008: PLN 177,548 thousand) and commission expenses in amount of PLN 64,372 thousand (for 2008: PLN 53,106 thousand).

6. Dividend income

In thousands of PLN	2009	2008
Securities available-for-sale	6,166	11,328
Securities held-for-trading	285	433
	6,451	**11,761**

7. Net gain on financial instruments and revaluation

In thousands of PLN	2009	2008
Net income on financial instruments valued at fair value through profit and loss account:		
Debt instruments	45,077	42,347
Capital instruments	(1,705)	11,231
Derivative instruments including:	367	(59,682)
Interest rate	*(1,452)*	*(62,182)*
Equity	*1,698*	*2,451*
Commodity	*121*	*49*
	43,739	**(6,104)**
Net income on FX operations		
Operations on FX derivative instruments	(88,167)	93,675
FX gains and losses (revaluation)	313,676	171,771
	225,509	**265,446**
	269,248	**259,342**

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 50,083 thousand (2008: PLN 261,039 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	2009	2008
Profits realized on available-for-sale securities:	90,150	57,312
Losses realized on available-for-sale securities:	(12,305)	(128)
	77,845	**57,184**

9. Net gain on investment equity securities

In thousands of PLN	2009	2008
Net gain on investment equity securities available-for-sale	**3,437**	**(168)**

10. Net other operating income

In thousands of PLN	2009	2008
Other operating income:		
Income from goods and services tax settlement for past years	124,643	-
Data processing for related parties	58,516	63,700
Income from office rent	3,414	3,101
Investment property	1,206	2,922
Income concerning dissolving of reserve for punishment imposed by UOKiK for interchange fees	-	10,228
Income from amount due vindication	-	7,477
Other income related to shares granted by VISA Inc.	-	3,803
Other	20,856	34,118
	200,635	**125,349**
Other operating expenses:		
Fixed assets held-for-sale	(12,945)	(1,081)
Amicable procedure and vindication expenses	(10,016)	(10,287)
Investment property	(768)	(843)
Other	(26,276)	(23,713)
	(50,005)	**(35,924)**
	158,630	**89,425**

11. General administrative expenses

In thousands of PLN	2009	2008
Staff expenses:		
Remuneration costs, including:	(528,665)	(590,121)
Provisions for retirement benefits	*(15,864)*	*(16,101)*
Perks and rewards including:	(117,314)	(106,840)
Payments related to own equity instruments	*(9,305)*	*4,783*
Rewards for long time employment	*-*	*18,795*
	(645,979)	**(696,961)**
Administrative expenses		
Telecommunication fees and hardware purchases costs	(165,344)	(159,943)
Advisory, audit, consulting and other services costs	(151,510)	(154,880)
Building maintenance and rent costs	(130,565)	(111,174)
Marketing	(56,339)	(62,814)
Transaction costs	(38,557)	(62,278)
Postal services costs	(37,362)	(31,389)
Training and education costs	(9,592)	(15,096)
Banking supervisory expenses	(4,072)	(7,763)
Other expenses	(60,888)	(96,495)
	(654,229)	**(701,832)**
	(1,300,208)	**(1,398,793)**

Staff expenses in 2009 include PLN 11,675 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2008: PLN 14,219 thousands).

12. Depreciation expense

In thousands of PLN	2009	2008
Depreciation of tangible assets	(63,883)	(78,576)
Depreciation of intangible assets	(14,964)	(18,539)
	(78,847)	**(97,115)**

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

In thousands of PLN	2009	2008
Profits on:		
Other tangible fixed assets	2,805	3,573
Assets held-for-sale	1,114	-
	3,919	**3,573**
Losses on:		
Other tangible fixed assets	(954)	(318)
Assets held-for-sale	(267)	-
	(1,221)	**(318)**
	2,698	**3,255**

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	2009	2008
Impairment write-downs:		
Loans and receivables valued at amortized cost	(761,272)	(387,429)
Amounts due from mature transactions on derivative instruments	(104,163)	(2,197)
Other	(19,560)	(17,152)
	(884,995)	**(406,778)**
Reversals of impairment write-downs:		
Loans and receivables valued at amortized cost	368,091	248,644
	368,091	**248,664**
	(516,904)	**(158,134)**

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

In thousands of PLN	2009	2008
Charges to provisions for off-balance sheet commitments	(83,254)	(35,328)
Releases of provisions for off-balance sheet commitments	54,349	40,382
	(28,905)	**5,054**
Net impairment losses	**(545,809)**	**(153,080)**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	2009	2008
Current tax:		
Current year	(215,697)	(120,870)
Adjustments for prior years	(640)	(1,366)
	(216,337)	**(122,236)**
Deferred tax:		
Origination and reversal of temporary differences	68,822	(43,056)
Movement in receivables arising from tax deductions	(1,352)	(299)
Other	-	6,863
	65,470	**(36,492)**
Income tax expense	**(150,867)**	**(158,728)**

Reconciliation of effective tax rate:

In thousands of PLN	2009	2008
Profit before tax	655,266	759,162
Income tax at the domestic tax rate of 19%	(124,500)	(144,240)
Non-deductible expenses	(20,574)	(11,014)
- including loss on sale of receivables disposal	*(6,262)*	*(982)*
- including updating deduction expenses	*(8,240)*	*(4,561)*
Deductible income not in income statement	(4,244)	(396)
- including income from conversion of debt on share	*(3,870)*	*-*
Deductible expenses not in income statement	157	198
Non taxable income	338	848
Other	(2,044)	(4,124)
Income tax expense	**(150,867)**	**(158,728)**
Effective tax rate	**23.02%**	**20.91%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2009 is related to debt and capital instruments available-for-sale and capital award program and amounts to PLN 17,184 thousand (31 December 2008: PLN 33,722 thousand).

16. Earnings per share

As at 31 December 2009 earnings per share amounted to PLN 3.86 (31 December 2008: PLN 4.60)

The calculation of earnings per share as at 31 December 2009 was based on the consolidated profit attributable to owners of ordinary shares of PLN 504,399 thousand (31 December 2008: PLN 600,434 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 130,659,600 (31 December 2008: 130,659,600).

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

17. Comparison of changes in other total revenue

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

In thousands of PLN	Gross value	Deferred income tax	Net value
As at 1 January 2009	**(177,832)**	**33,722**	**(144,110)**
AFS valuation change	155,487	(29,349)	126,138
Valuation of sold AFS moved to profit and loss account	(77,845)	14,791	(63,054)
As at 31 December 2009	**(100,190)**	**19,164**	**(81,026)**

In thousands of PLN	Gross value	Deferred income tax	Net value
As at 1 January 2008	**(225,247)**	**42,797**	**(182,450)**
AFS valuation change	104,599	(19,940)	84,659
Valuation of sold AFS moved to profit and loss account	(57,184)	10,865	(46,319)
As at 31 December 2008	**(177,832)**	**33,722**	**(144,110)**

18. Cash and balances with the Central Bank

In thousands of PLN	31.12.2009	31.12.2008
Cash at hand	478,114	509,841
Current balances with Central Bank	3,635,241	3,021,136
	4,113,355	**3,530,977**

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 2009 of PLN 776.347 thousand (31 December 2008: PLN 1,021,738 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.

19. Financial assets and liabilities held-for-trading

Financial assets held for trading

In thousands of PLN	31.12.2009	31.12.2008
Debt securities held for trading		
Bonds and notes issued by:		
Banks	40,729	-
Financial sector	-	3,185
Non-financial sector	-	-
Government	2,235,064	1,219,013
Other debt securities issued by:		
Banks	-	26,065
	2,275,793	**1,248,263**
Including:		
Listed	*2,274,966*	*721,127*
Unlisted	*827*	*527,136*
Equity instruments	**27,483**	**28,952**
Including:		
Listed	*27,483*	*952*
*Unlisted**	*-*	*28,000*
Derivatives	**3,093,849**	**6,608,273**
	5,397,125	**7,885,488**

Financial liabilities held-for-trading:

In thousands of PLN	31.12.2009	31.12.2008
Short positions in financial assets	10,412	-
Derivative financial instruments	3,098,081	6,806,790
	3,108,493	**6,806,790**

* As at 31 December 2008 financial assets held for trading included PLN 28,000 thousand of shares' value of the company Polskie Towarzystwo Reasekuracji S.A. (PTR S.A.), which were sold on 12 January 2009 to Fairfax Financial Holdings Limited with its head office in Ontario, Canada. All of sold shares owned by the Bank 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 total price at which the Bank sold PTR S.A. shares was PLN 28,000,000.

As at 31 December 2009 and 31 December 2008 the Group did not hold any financial assets and liabilities designated for valuation at fair value through the profit and loss account at initial recognition.

As at 31 December 2009 financial assets from derivatives transactions including deductions concerning valuation correction from contractor's credit risk for future due of PLN 47,239 thousand (31 December 2008: PLN 233,497 thousand).

Derivative financial instruments as at 31 December 2009

In thousands of PLN	Notional amount of derivatives with remaining life of				Total	Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	**11,356,209**	**45,658,001**	**51,760,004**	**23,799,938**	**132,574,152**	**2,317,902**	**2,418,582**
FRA - purchase	250,000	10,919,000	2,750,000	-	13,919,000	1,522	12,251
FRA - sale	250,000	11,219,000	2,250,000	-	13,719,000	21,995	1,253
Interest rate swaps (IRS)	10,544,158	21,720,494	41,436,942	21,509,491	95,211,085	1,910,645	2,031,785
Currency - interest rate swaps (CIRS)	273,585	1,034,327	3,667,864	2,290,447	7,266,223	377,912	367,735
Interest rate options purchased	-	-	827,599	-	827,599	5,237	-
Interest rate options sold	-	-	827,599	-	827,599	-	5,237
Future contracts - purchase*	25,172	-	-	-	25,172	-	278
Future contracts - sale*	13,294	765,180	-	-	778,474	591	43
Currency instruments	**9,204,422**	**4,772,425**	**3,611,725**	**732,273**	**18,320,845**	**769,890**	**673,672**
FX forward	1,935,529	1,474,572	589,667	374,937	4,374,705	223,123	58,684
FX swap	5,089,683	804,332	201,325	-	6,095,340	105,279	142,806
Foreign exchange options purchased	1,088,061	1,265,370	1,460,024	169,122	3,982,577	441,429	59
Foreign exchange options sold	1,091,149	1,228,151	1,360,709	188,214	3,868,223	59	472,123
Securities transactions	**153,350**	**12,000**	**51,640**	**-**	**216,990**	**5,751**	**5,521**
Share options (purchase)	-	6,000	25,820	-	31,820	4,848	657
Share options (sale)	-	6,000	25,820	-	31,820	657	4,848
Future contracts	28,642	-	-	-	28,642	-	-
Securities purchased pending delivery	44,887	-	-	-	44,887	120	14
Securities sold pending delivery	79,821	-	-	-	79,821	126	2
Commodity transactions	**-**	**13,176**	**-**	**-**	**13,176**	**306**	**306**
Purchase options	-	6,588	-	-	6,588	228	78
Sold options	-	6,588	-	-	6,588	78	228
Derivative instruments total	**20,657,856**	**50,602,252**	**55,423,369**	**24,532,211**	**151,125,163**	**3,093,849**	**3,098,081**

** Exchange-traded products.*

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 three months	between three months and one year	between one year and five years	more than five 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.*

20. Debt securities available-for-sale

In thousands of PLN	31.12.2009	31.12.2008
Bonds and notes issued by:		
Central Bank	-	2,383,387
Non-financial sector	34,230	21,929
Government	8,236,979	8,409,512
Self-governed institutions	19,016	-
	8,290,225	**10,814,828**
Including:		
Listed instruments	*7,911,470*	*4,765,396*
Unlisted instruments	*378,755*	*6,049,432*

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

In thousands of PLN	2009	2008
As at 1 January	**10,814,828**	**6,467,638**
Increases (in respect of)		
Purchases	135,224,724	40,634,297
Amortization of discount, premium and interest	78,825	46,233
FX differences	-	325,556
Amortization of discount, premium and interest	170,712	112,920
Decreases (in respect of)		
Purchases	(137,824,808)	(36,735,113)
FX differences	(29,088)	-
Amortization of discount, premium and interest	(144,968)	(36,703)
As at 31 December	**8,290,225**	**10,814,828**

21. Equity investments valuated at the equity method

In thousands of PLN	31.12.2009	31.12.2008
Stocks and shares in subordinated entities	**56,895**	**56,469**
Including:		
Listed instruments	-	-
Unlisted instruments	*56,895*	*56,469*

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

In thousands of PLN	2009	2008
As at 1 January	**56,469**	**58,388**
Increases (in respect of)		
Revaluation	702	438
Decrease (in respect of)		
Revaluation	(276)	(2,357)
As at 31 December	**56,895**	**56,469**

22. Other equity investments

In thousands of PLN	31.12.2009	31.12.2008
Stocks and shares in other entities	52,194	42,905
Impairment	(28,054)	(31,810)
	24,140	**11,095**
Including:		
Listed instruments	*3,803*	*4,986*
Unlisted instruments	*20,337*	*6,109*

The change in other equity investments is as follows:

In thousands of PLN	2009	2008
As at 1 January	**11,095**	**21,909**
Increases (in respect of)		
Purchase	-	3,803
Revaluation	-	1,183
Take-over for receivables*	14,259	-
Decreases (in respect of):		
Sales	(1,214)	(1,299)
Revaluation	-	(1)
Other	-	(14,500)
As at 31 December	**24,140**	**11,095**

* On 23 September 2009 r., as a result of the validation of bankruptcy court decision regarding the approval of settlement in the restructuring proceedings of Polski Koncern Mięsny DUDA S.A. with creditors, the receivables due to Bank Handlowy w Warszawie S.A. in respect of future transactions/derivatives agreements, were converted into 20,369,538 shares of DUDA, giving 9.0% in the DUDA share capital and 9.0% in votes on the General Meeting of Shareholders.

Financial information on subordinated entities as at 31 December 2009

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	1,166,127	1,007,460	158,667	168,362	(15,250)
HANDLOWY INVESTMENTS S.A [1)]	Luxemburg	Investment activity	Subsidiary undertaking	100.00	29,230	239	28,991	1,755	1,588
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	653,114	562,338	90,776	106,884	8,325
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.* under liquidation	Poznań	Banking	Subsidiary undertaking	100.00	40,738	Entity under liquidation				
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,135	7,138	211	6,927	290	104
HANDLOWY INWESTYCJE Sp. z o.o. [2)]	Warsaw	Investment activity	Subsidiary undertaking	100.00	9,022	16,824	4,735	12,089	512	371

* 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. BRC has started liquidation process after 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	1,677	7,138	211	6,927	290	104

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	1,166,127	1,007,460	158,667	168,362	(15,250)

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 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	1,554,887	1,378,846	176,041	170,222	2,125
HANDLOWY INVESTMENTS S.A. 1)	Luxembourg	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	458,327	366,181	92,145	78,184	9,705
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

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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	40,430	520	39,909	2,012	795
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	16,731	5,014	11,718	1,962	882

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	1,663	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	1,554,887	1,378,846	176,041	170,222	2,125

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.

23. Loans and advances

Loans and advances (by category)

In thousands of PLN	31.12.2009	31.12.2008
Loans and advances to the financial sector:		
Current accounts of banks	20,036	76,553
Loans, placements and advances, including:	3,769,573	2,721,417
placements in banks	*3,380,479*	*1,917,991*
Purchased receivables	14,774	15,152
Realized guarantees	-	249
Receivables subject to securities sale and repurchase agreements	992,911	877,484
Other receivables	27,588	82,294
	4,824,882	**3,773,149**
Impairment write-offs	(22,320)	(77,627)
	4,802,562	**3,695,522**
Loans and advances to the non-financial sector:		
Loans and advances	11,882,677	13,538,021
Purchased receivables	359,982	241,156
Realized guarantees	18,733	41,502
Other receivables	1,152,736	1,452,464
	13,414,128	**15,273,143**
Impairment write-offs	(1,439,435)	(1,387,166)
	11,974,693	**13,885,977**
Loans and advances	**16,777,255**	**17,581,499**

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	31.12.2009	31.12.2008
Gross finance lease receivables	1,253,065	1,595,415
Unearned finance income	(102,501)	(150,257)
Net finance lease receivables	**1,150,564**	**1,445,158**

As at 31 December 2009 impairment for unrecoverable finance lease receivables amounted to PLN 73,600 thousand (as at 31 December 2008 amounted PLN 45,759 thousand).

Finance lease income is presented in interest income.

24. Impairment of loans and advances

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

In thousands of PLN	2009	2008
Balance as at 1 January	1,464,793	1,431,458
Related to:		
Receivables from banks	4,041	1,886
Receivables from other customers of financial and non- financial sector	1,460,752	1,429,572
Change in impairment write-downs	(3,038)	33,335
Creation of write-off for loans and advances	761,272	387,429
Creation of write-off in the period for receivables in respect of matured derivative instrument transactions	104,163	2,197
Write-off receivables	(103,287)	(107,771)
Amounts released for loans and advances	(368,091)	(248,644)
Sale of receivables	(425,596)	-
Transfer from other group of assets	32,280	-
Other	(3,779)	123
Balance as at 31 December	**1,461,755**	**1,464,793**
Related to:		
Receivables from banks	766	4,041
Receivables from other customers of financial and non-financial sector	1,460,989	1,460,752

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

In thousands of PLN	31.12.2009	31.12.2008
Portfolio impairment loss	547,973	389,528
Individual impairment loss	771,034	1,002,776
Incurred but not reported losses (IBNR)	142,748	72,489

25. 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 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)	(3,758)	(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**
Balance as at 1 January 2009	**721,768**	**981**	**71,852**	**560,339**	**13,531**	**1,368,471**
Additions:						
Purchases	393	-	6,136	10,912	14,377	31,818
Reclassification	17,300	-	-	5,433	(22,733)	-
Other increases	-	-	-	411	-	411
Decreases:						
Disposals	(5,989)	-	(18,925)	(1,831)	-	(26,745)
Liquidation	(9,120)	-	(99)	(31,548)	-	(40,767)
Classified as fixed assets held-for-sale	(17,267)	-	-	(514)	-	(17,781)
Other decreases	(2,416)	(78)	(249)	(5,961)	(3,778)	(12,482)
Balance as at 31 December 2009	**704,669**	**903**	**58,715**	**537,241**	**1,397**	**1,302,925**
Depreciation and amortization						
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 as at 31 December 2008	**290,841**	**929**	**21,854**	**501,208**	**-**	**814,832**
Balance as at 1 January 2009	**290,841**	**929**	**21,854**	**501,208**	**-**	**814,832**
Increases:						
Depreciation charge for the period	27,311	23	8,659	27,892	-	63,885
Other increases	-	-	-	266	-	266
Decreases:						
Disposals	(2,210)	(3)	(13,664)	(1,739)	-	(17,616)
Liquidation	(8,084)	-	-	(31,009)	-	(39,093)
Classified as fixed assets held-for-sale	(5,271)	-	-	(454)	-	(5,725)
Other decreases		(48)	(120)	(340)	-	(508)
Balance at 31 December 2009	**302,587**	**901**	**16,729**	**495,824**	**-**	**816,041**
Carrying amounts						
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
As at 1 January 2009	430,927	52	49,998	59,131	13,531	553,639
As at 31 December 2009	402,082	2	41,986	41,417	1,397	486,884

Investment properties

In thousands of PLN	2009	2008
Balance as at 1 January	**18,308**	**25,028**
Increases:		
Reclassified from Bank's properties	-	164
Decreases:		
Disposals	-	(6,884)
Balance as at end of period	**18,308**	**18,308**

26. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepay-ments	Total
Gross value:						
Balance as at 1 January 2008	**1,245,976**	**1,651**	**240,805**	**19,088**	**5,058**	**1,512,578**
Additions:						
Purchases	-	931	10,318	69	7,129	18,447
Decreases:	-	-	8,174	-	(8,838)	(664)
Reclassification	-	-	(7,283)	-	-	(7,283)
Balance as at 31 December 2008	**1,245,976**	**2,582**	**252,014**	**19,157**	**3,349**	**1,523,078**
Balance as at 1 January 2009	**1,245,976**	**2,582**	**252,014**	**19,157**	**3,349**	**1,523,078**
Increases:						
Purchases	-	519	5,763	1	9,219	15,502
Decreases:						
Reclassification	-	-	6,474	-	(6,505)	(31)
Other decreases	-	-	(1,275)	-	-	(1,275)
Balance as at 31 December 2009	**1,245,976**	**3,101**	**262,976**	**19,158**	**6,082**	**1,537,293**
Depreciation and amortization:						
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**
Balance as at 1 January 2009	**-**	**1,662**	**221,387**	**16,703**	**-**	**239,752**
Increases:						
Depreciation charge for the period	-	198	13,061	1,705	-	14,964
Other increases	-	-	4	-	-	4
Decreases:						
Other decreases	-	-	(1)	-	-	(1)
Balance as at 31 December 2009	**-**	**1,860**	**234,451**	**18,408**	**-**	**254,719**
Carrying amounts						
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 1 January 2009	1,245,976	920	30,627	2,454	3,349	1,283,326
As at 31 December 2009	1,245,976	1,241	28,525	750	6,082	1,282,574

As at 31 December 2009, 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 the enterprise from ABN AMRO Bank (Poland) S.A. on 1 March 2005.

27. 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 2009 the discount rate amounted to 11.3% (in 2008: 12.4%).

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 2009.

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.

28. Income tax assets and liabilities

In thousands of PLN	31.12.2009	31.12.2008
Income tax assets*		
Current tax	97,657	7,862
Deferred tax	378,715	328,428
	476,372	**336,290**
Income tax liabilities*		
Current tax	-	77

* *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	31.12.2009	31.12.2008
Interest accrued and other expense	10,384	10,619
Loan loss provisions	178,322	105,945
Unrealized premium	15,993	19,258
Unrealized financial instruments valuation expenses	445,998	648,872
Negative pricing of securities	25,541	2,524
Income collected in advance	21,487	24,148
Valuation of shares	4,186	5,436
Commissions	7,475	5,878
Debt securities available-for-sale	17,184	33,721
Cost related to asymmetric transaction	69,399	69,399
Staff expenses and other cost due to pay	48,530	48,657
Other	40,338	58,080
Deferred tax assets	**884,837**	**1,032,537**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	31.12.2009	31.12.2008
Accrued interest (income)	36,910	64,643
Unrealized premium from options	490	212
Unrealized financial instruments valuation income	373,646	569,540
Unrealized securities discount	11,428	2,940
Incomes to receive	7,724	9,046
Positive valuation of securities	29,339	6,005
Investment relief	18,646	19,835
Valuations of shares	633	571
Differences between balance sheet and tax value of leases	22,273	22,866
Other	5,033	8,451
Deferred tax provisions	**506,122**	**704,109**

Movement in temporary differences during the period

In thousands of PLN	Balance as at 1 January 2009	Adjustments recognized in income	Adjustments recognized in equity	Balance as at 31 December 2009
Interest accrued and other expense	10,619	(235)	-	10,384
Loan loss provisions	105,945	72,377	-	178,322
Unrealized premium	19,258	(3,265)	-	15,993
Unrealized financial instruments valuation expenses	648,872	(202,874)	-	445,998
Negative valuation of securities	2,524	23,017	-	25,541
Income collected in advance	24,148	(2,661)	-	21,487
Valuation of shares	5,436	(1,250)	-	4,186
Commissions	5,878	1,597	-	7,475
Debt securities available-for-sale	33,721	-	(16,537)	17,184
Cost related to asymmetric transaction	69,399	-	-	69,399
Staff expenses and other cost due to pay	48,657	(127)	-	48,530
Other	58,080	(17,742)	-	40,338
	1,032,537	**(131,163)**	**(16,537)**	**884,837**

In thousands of PLN	Balance as at 1 January 2009	Adjustments recognized in income	Balance as at 31 December 2009
Interest accrued (income)	64,643	(27,733)	36,910
Unrealized premium from options	212	278	490
Unrealized financial instruments valuation income	569,540	(195,894)	373,646
Unrealized securities discount	2,940	8,488	11,428
Incomes to receive	9,046	(1,322)	7,724
Positive valuation of securities	6,005	23,334	29,339
Investment relief	19,835	(1,189)	18,646
Valuation of shares	571	62	633
Differences between balance sheet and tax value of leases	22,866	(593)	22,273
Other	8,451	(3,418)	5,033
	704,109	**(197,987)**	**506,122**

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 expense	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
Commission	5,333	545	-	5,878
Debt securities available-for-sale	42,797	-	(9,076)	33,721
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 r ecognized 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**

29. Other assets

In thousands of PLN	31.12.2009	31.12.2008
Interbank settlements	600	970
Settlements related to brokerage activity	479,836	221,861
Accounts receivable	64,452	50,879
Staff loans out of the Social Fund	24,970	25,041
Sundry debtors	107,347	129,975
Prepayments	13,151	14,405
Other assets	28	28
	690,384	**443,159**

30. Non-current assets held-for-sale

As at 31 December 2009 non-current assets held-for-sale include Group's own property on joint value PLN 19,546 thousand (31 December 2008: PLN 35,267 thousand), that fulfils the requirements of IFRS 5 and therefore was reclassified to this group from fixed tangible assets. Two of them were sold in first quarter of 2010. It is planned to sell the rest of them properly till the end of second and fourth quarter of 2010.

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

In thousands of PLN	2009	2008
Balance as at 1 January	**35,267**	**12,645**
Increases:		
Reclassify from banking properties	12,057	23,703
Decreases:		
Valuation updating	(12,945)	(1,081)
Disposals	(14,833)	-
Balance as at 31 December	**19,546**	**35,267**

31. Liabilities due to Central Bank

In thousands of PLN	31.12.2009	31.12.2008
Liabilities In respect of sale and repurchase transaction	973,057	-
Accrued interest	7,389	-
	980,446	**-**

32. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	31.12.2009	31.12.2008
Deposits from financial sector:		
Current accounts, including:	2,240,998	2,089,692
current accounts of banks	*1,474,356*	*1,212,394*
Deposits, including:	2,490,436	5,828,349
term deposits of banks	*157,871*	*2,122,493*
Accrued interest	3,826	4,219
	4,735,260	**7,922,260**
Deposits from non-financial sector:		
Current accounts, including:	10,611,554	7,476,940
corporate customers	*3,523,963*	*3,336,662*
individual customers	*4,545,352*	*3,181,256*
budgetary units	*1,957,517*	*611,357*
Deposits, including:	9,939,696	12,431,216
corporate customers	*7,052,771*	*8,457,649*
individual customers	*1,790,952*	*2,291,343*
budgetary units	*690,391*	*1,171,453*
Accrued interest	20,708	26,916
	20,571,958	**19,935,072**
Deposits	**25,307,218**	**27,857,332**
Other liabilities:		
Loans and advances received	828,585	1,253,420
Other liabilities, including:	221,452	229,928
cash collateral	*150,976*	*156,858*
Accrued interest	2,582	4,818
	1,052,619	**1,488,166**
	26,359,837	**29,345,498**

33. Provisions

In thousands of PLN	31.12.2009	31.12.2008
For disputes	11,963	5,439
For restructuring	-	10,619
For off-balance sheet commitments	37,427	8,520
	49,390	**24,578**

The movement in provisions is as follows:

In thousands of PLN	2009	2008
Balance as at 1 January	**24,578**	**37,548**
Concerning:		
Disputes	5,439	23,974
Restructuring	10,619	-
Off-balance sheet commitments	8,520	13,574
Increases:		
Creation of provisions in the period, including:	95,823	71,698
Disputes	12,568	5,124
For restructuring	-	30,000
Off-balance sheet commitments	83,255	36,574
Decreases:		
Use of provisions, include:	(10,619)	(15,305)
for restructuring	(10,619)	(15,305)
Release of provisions:	(60,392)	(69,363)
for disputes	(6,044)	(23,659)
for restructuring	-	(4,076)
for off-balance sheet liabilities	(54,348)	(41,628)
Balance as at 31 December	**49,390**	**24,578**

34. Other liabilities

In thousands of PLN	31.12.2009	31.12.2008
Fund of social service	62,307	63,566
Interbank settlements	26,047	57,367
Interbranch settlements	735	1,003
Settlements related to brokerage activity	494,061	224,377
Settlements with Tax Office and National Insurance (ZUS)	11,214	7,722
Sundry creditors	52,258	98,872
Accruals	247,970	251,293
Provision for employee payments	*67,064*	*87,643*
Provision for employees retirement and jubilee payments	*44,230*	*44,300*
IT services and bank operations support	*40,726*	*30,572*
Consultancy services and business support	*23,292*	*39,398*
Other	*72,658*	*49,380*
Deferred income	40,916	43,393
	935,508	**747,593**

35. Assets and liabilities according to expire date

As at 31 December 2009

In thousand of PLN	Note	Total	Less than 1 month	Between 1 and 3 moths	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Financial assets held for trading							
Debt securities available-for-sale	19	2,275,793	10,743	1,344,611	73,092	791,478	55,869
Financial assets available-for-sale							
Debt securities available-for-sale	20	8,290,225	-	-	1,542,926	3,941,319	2,805,980
Loans and advances (Gross)							
Loans, placements and advances from financial sector, including:	23	4,824,882	3,757,398	61,481	991,751	-	14,252
from banks and other financial institutions	*23*	*3,481,974*	*3,414,497*	*61,481*	*5,996*	-	-
from other financial institutions	*23*	*1,342,908*	*342,901*	-	*985,755*	-	*14,252*
Loans, placements and advances from non-financial sector	23	13,414,128	6,963,244	773,332	1,378,974	3,854,361	444,217
Financial liabilities valued at amortized cost							
Financial sector, including:	32	5,567,570	4,627,120	69,947	766,169	6,617	97,717
from banks and other financial institutions	*32*	*2,473,851*	*1,616,745*	*3,616*	*753,723*	*2,050*	*97,717*
from other financial institutions	*32*	*3,093,719*	*3,010,375*	*66,331*	*12,446*	*4,567*	-
Non-financial sector	32	20,792,267	19,077,658	1,193,358	493,477	27,709	65

As at 31 December 2008

In thousand of PLN	Note	Total	Less than 1 month	Between 1 and 3 moths	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Financial assets held for trading							
Debt securities available-for-sale	19	1,248,263	501,071	15,318	343,729	314,089	74,056
Financial assets available-for-sale							
Debt securities available-for-sale	20	10,814,828	2,460,631	395,668	926,086	3,653,999	3,378,444
Loans and advances (Gross)							
Loans, placements and advances from financial sector, including:	23	3,773,149	1,699,355	737,457	1,064,011	257,517	14,809
from banks and other financial institutions	*23*	*3,043,803*	*1,323,990*	*712,457*	*994,839*	*12,517*	-
from other financial institutions	*23*	*729,346*	*375,365*	*25,000*	*69,172*	*245,000*	*14,809*
Loans, placements and advances from non-financial sector	23	15,273,143	8,112,006	844,619	1,558,933	4,242,433	515,152
Financial liabilities valued at amortized cost							
Financial sector, including:	32	9,184,286	7,841,527	45,665	869,122	338,273	89,699
from banks and other financial institutions	*32*	*4,594,298*	*3,294,964*	*13,223*	*862,901*	*333,530*	*89,680*
from other financial institutions	*32*	*4,589,988*	*4,546,563*	*32,442*	*6,221*	*4,743*	*19*
Non-financial sector	32	20,161,212	18,474,372	1,321,039	338,368	27,345	88

36. Capital and reserves

Share capital

Series/issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series/issue	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	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 2009, 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 2008.

The Bank has not issued preference shares.

Principal shareholders

As at 31 December 2009 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 the structure of major shareholdings has not changed.

In 2009 the structure of major shareholdings has underwent following changes:

- according to notification placed on 20 February 2009 by Pioneer Pekao Investment Management S.A. („PPIM") the total shareholding of PPIM clients reached the level of 5.01% of the total number of votes at the General Meeting of the Bank,
- according to notification received on 17 April 2009 from PPIM the total shareholding of PPIM clients fell below 5% of the total number of votes at the General Meeting of the Bank and has reached the level of 4.55%.

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	31.12.2009	31.12.2008
Revaluation of financial assets available-for-sale	**(81,026)**	**(144,110)**

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	31.12.2009	31.12.2008
Reserve capital	1,750,757	1,233,896
General risk reserve	465,000	390,000
Capital from valuation of employee equity benefits	6,937	-
Foreign currency translation adjustment	3,018	3,796
	2,225,712	**1,627,692**

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 for 2008

In accordance with Resolution No. 26a/2009 of the Ordinary General Meeting of the Bank of 18 June 2009 the profit for 2008 was distributed, and a resolution that no dividend for the year 2008 will be paid was adopted. The profit for 2008 was assigned for increasing the shareholders' equity.

Declared dividends

As at the date of this report there has been no decision concerning the distribution of 2009 profit and the amount of dividend.

37. 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 2009 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	1,086,167	980,446	3 to 6 months	991,997

** including interest.*

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

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

As at 31 December 2009 assets sold through repo can't be further traded.

In 2009 the total interest expense on repurchase agreements was PLN 32,585 thousand (In 2008: PLN 2,146 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 2009 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:	980,830	1,086,167	3 to 6 months	992,981
from financial sector:	12,082	12,060	to 1 month	12,084

* *including interest.*

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 2009 and 31 December 2008, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2009 total interest income on repurchase agreements was PLN 7,328 thousand (in 2008: PLN 12,013 thousand).

38. Fair value information

Fair value of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged or a liability could be discharged in a transaction between well-informed and willing parties 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 2009

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	18	-	-	-	4,113,355	4,113,355	4,113,355
Financial assets held for trading	19	5,397,125	-	-	-	5,397,125	5,397,125
Debt securities available for sale	20	-	-	8,290,225	-	8,290,225	8,290,225
Capital investment valued at equity method	21	-	-	56,895	-	56,895	56,895
Other capital investment	22	-	-	24,140	-	24,140	24,140
Credit, loans and other receivables	23	-	16,777,255	-	-	16,777,255	16,770,830
		5,397,125	**16,777,255**	**8,371,260**	**4,113,355**	**34,658,995**	**34,652,570**
Liabilities							
Liabilities due to Central Bank		-	-	-	980,446	980,446	980,446
Financial liabilities held for trading	19	3,108,493	-	-	-	3,108,493	3,108,493
Financial liabilities valued at amortized cost	32	-	-	-	26,359,837	26,359,837	26,358,390
		3,108,493	**-**	**-**	**27,340,283**	**30,448,776**	**30,447,329**

As at 31 December 2008

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	18	-	-	-	3,530,977	3,530,977	3,530,977
Financial assets held for trading	19	7,885,488	-	-	-	7,885,488	7,885,488
Debt securities available for sale	20	-	-	10,814,828	-	10,814,828	10,814,828
Capital investment valued at equity method	21	-	-	56,469	-	56,469	56,469
Other capital investment	22	-	-	11,095	-	11,095	11,095
Credit, loans and other receivables	23	-	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	19	6,806,790	-	-	-	6,806,790	6,806,790
Financial liabilities valued at amortized cost	32	-	-	-	29,345,498	29,345,498	29,337,568
		6,806,790	**-**	**-**	**29,345,498**	**36,152,288**	**36,144,358**

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 2009

In thousand of PLN	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Assets				
Financial assets held for trading	19			
- derivatives		2,507	2,548,056	543,286
- debt securities		2,275,793	-	-
- capital instruments		27,483	-	-
Debt securities held for trading	20	8,236,979	-	53,246
Other capital investment	22	-	18,062	-
Liabilities				
Financial liabilities held for trading	19			
- short sale of valuable paper		10,412	-	-
- derivatives		3,749	2,968,905	125,427

As at 31 December 2008

In thousand of PLN	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Assets				
Financial assets held for trading	19			
- 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	20	8,409,512	2,383,387	21,929
Other capital investments	22	4,986	-	-
Liabilities				
Financial liabilities held for trading	19			
- derivatives		10,139	6,361,332	435,319

Changes, in the period, of financial assets and liabilities valuated at fair value using important parameter from outside of the market are presented below:

In thousand of PLN	Financial assets held for trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held for trading
	Derivatives	Debt securities	Capital instruments	Debt securities		Derivatives
As at 1 January 2009	**1,696,551**	**29,250**	**28,000**	**21,929**	**1,775,730**	**435,319**
Increases and decreases in total:						
in income statement	1,132,508	7,429	-	4,372	1,144,309	569,176
in other comprehensive income	-	-	-	(183)	(183)	-
Acquisition	-	36,551,802	-	362,515	36,914,317	-
Clearance	(1,974,200)	(36,588,481)	(28,000)	(335,387)	(38,926,068)	(879,068)
Transfer to receivables	(311,573)	-	-	-	(311,573)	-
As at 31 December 2009	**543,286**	**-**	**-**	**53,246**	**596,532**	**125,427**
Increases and decreases in total in the period in the income statement for assets/liabilities possessed at the end of the period	252,512	-	-	2,548	255,060	100,639

Increases and decreases in Income statement for period from 1 January 2009 till 31 December 2009 are included in Net income on financial instruments and revaluation in the following manner:		
Increases and decreases in total in Income statement for the period	1,144,309	569,176
Increases and decreases in total in the period in the income statement for assets/liabilities possessed at the end of the period	255,060	100,639

In thousand of PLN	Financial assets held for trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held for trading
	Derivatives	Debt securities	Capital instruments	Debt securities		Derivatives
As at 1 January 2008	**-**	**207,501**	**-**	**88,135**	**295,636**	**-**
Increases and decreases in total:						
in income statement	2,832,708	25,672	13,500	6,676	2,878,556	1,472,462
in other comprehensive income	-	-	-	1,820	1,820	-
Acquisition	-	44,173,027	14,500	67,000	44,254,527	-
Clearance	(1,622,883)	(44,376,950)	-	(141,702)	(46,141,535)	(1,345,434)
Transfer to receivables	(24,938)	-	-	-	(24,938)	-
Change of valuation method*	511,664	-	-	-	511,664	308,291
As at 31 December 2008	**1,696,551**	**29,250**	**28,000**	**21,929**	**1,775,730**	**435,319**
Increases and decreases in total in the period in the income statement for assets/liabilities possessed at the end of the period	1,564,116	377	13,500	656	1,578,649	419,200

Increases and decreases in Income statement for period from 1 January 2008 till 31 December 2008 are included in Net income on financial instruments and revaluation in the following manner:		
Increases and decreases in total in Income statement for the period	2,878,556	1,472,462
Increases and decreases in total in the period in the income statement for assets/liabilities possessed at the end of the period	1,578,649	419,200

* *Transfer of the part of derivatives from category of valuation according to parameters originating from the market to valuated according to parameters not origin form the market. The change of valuation methodology results from including of credit risk for non banking customers in the valuation.*

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 2009 the Group disposed off its minority shareholding in MTS-CeTO S.A., which in prior periods, the fair value of investment could not be reliably measured. The balance value of sold MTS-CeTO S.A shares amounted PLN 31 thousand and profit on sale amounted PLN 1,440 thousand. In 2008 the Group disposed it's minority shareholdings in Lubelska Fabryka Maszyn Rolniczych S.A. (LFMR). The balance value of sold LFMR shares amounted to PLN 0 and profit on sale amounted PLN 440 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 as well as the changes in the Bank's margins during the financial period.
In particular , these changes in the Bank's margins on the loans are based on the concluded transactions.
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 taking into account current margins.

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 taking into account the Bank's current margins , in a similar way adopted for the valuation of loans .

39. Contingent liabilities

Information on pending proceedings

As at 31 December 2009, 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 814,826 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.	43,690	12 February 2009 - declaration of bankruptcy with option of negotiations.	Case pending. The Bank submitted the receivable of the credit agreement and future transactions
Creditor: Bank Handlowy w Warszawie S.A.	64,837	On 30 June 2009, the court has declared the debtor's secondary bankruptcy including liquidation of debtor's property and has appointed syndic	Court has called creditors for reporting receivables. The Bank's receivable concerns future transactions. Case pending.

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

As at 31 December 2009, 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.

Except of above mentioned legal actions, as at 31 December 2009, there weren't any significant legal actions concerned to future financial transactions in both areas: receivables and liabilities of the Group.

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	31.12.2009	31.12.2008
Off-balance sheet commitments granted		
Letters of credit	136,476	198,369
Guarantees granted	1,902,396	2,349,068
Credit lines granted	11,428,560	10,949,511
Issue guarantees	300,000	29,500
	13,767,432	**13,526,448**

In thousands of PLN	31.12.2009	31.12.2008
Letters of credit by categories		
Import letters of credit issued	128,453	188,228
Export letters of credit confirmed	8,023	10,141
	136,476	**198,369**

As at 31 December 2009 and 31 December 2008 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 2009, the specific provisions created for off balance sheet commitments amounted to PLN 37,427 thousand (31 December 2008: PLN 8,520 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	31.12.2009	31.12.2008
Contingent liabilities received		
Finance	-	26,000
Guarantees	3,231,817	2,394,584
	3,231,817	**2,420,584**

40. Assets pledged as collateral

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

In thousands of PLN	31.12.2009	31.12.2008
Assets pledged		
Debt securities available-for-sale	108,763	111,440
Loan and advantages		
Guarantee funds of stock transactions	25,521	78,935
Settlements related to operations on derivative instruments	5,164	50,023
	139,448	**240,398**

As at 31 December 2009 and 31 December 2008, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. Other assets disclosed above secure settlement of their respective transactions, including derivatives transactions. The terms and rules of the transactions executed to date are standard and typical for such dealings.

41. Trust activities

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 2009 the Bank maintained 13,401 securities accounts (31 December 2008: 13,172 accounts).

42. 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	31.12.2009	31.12.2008
Less than 1 year	40,487	51,075
Between 1 and 5 years	99,581	134,072
More than 5 years	6,445	25,384
	146,513	**210,531**
Total operating leasing rentals for unspecified period of time	**1,596**	**1,643**

The Group uses office space under operating lease contracts. The most significant lease contracts relate to office space situated in Wrocław at Powstańców Śląskich 7A and in Gdańsk, at Wały Piastowskie 1. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years, however some contracts have been signed for period up to 1 year and some for more than 10 years. Lease payments are under one year indexation. In 2009 the total amount of lease payments was PLN 47,935 thousand (in 2008: PLN 41,284 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	31.12.2009	31.12.2008
Less than 1 year	1,250	1,727
Between 1 and 5 years	3,512	3,694
More than 5 years	477	909
	5,239	**6,330**
Total operating leasing rentals for unprescribed time	**595**	**2,070**

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 2009 the income related to these contracts amounted to PLN 3,431 thousand (in 2008: PLN 4,152 thousand).

The Group 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 2009 amounted to PLN 101 thousand (in 2008: PLN 150 thousand).
These payments are presented in the income statement in 'Other operating income'.

43. Cash flow statement

Additional information:

In thousands of PLN	31.12.2009	31.12.2008
Cash related items		
Cash at hand	478,114	509,841
Nostro current account in Central Bank	3,635,241	3,021,136
Current accounts in other banks	20,036	76,553
	4,133,391	**3,607,530**

44. Related parties

Transactions with related parties

Within its normal course of business activities the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., associates (see Note No. 22) 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	31.12.2009	31.12.2008
Receivables, including:	1,232,030	1,432,414
Placements	*1,201,701*	*1,341,839*
Liabilities, including:	1,735,533	3,516,583
Deposits	*78,175*	*1,892,540*
Loans received	*637,999*	*1,037,369*
Balance valuation of derivative transactions		
Assets held-for-trading	2,081,387	3,849,056
Liabilities held-for-trading	2,619,218	4,817,442
Off-balance sheet guarantee liabilities granted	226,595	286,908
Off-balance sheet guarantee liabilities received	19,007	228,391
Off-balance sheet liabilities in respect of derivative instruments including:	100,091,111	175,785,177
Interest rate instruments	90,797,786	149,283,236
FRA	*13,919,000*	*56,379,000*
Interest rate swaps (IRS)	*70,334,884*	*86,186,745*
Currency - interest rate swaps (CIRS)	*4,912,657*	*3,926,709*
Interest rate options	*827,599*	*883,448*
Future contracts	*803,646*	*1,907,334*
Currency instruments	9,174,229	26,192,014
FX forward	*1,879,276*	*8,404,872*
FX swap	*3,600,661*	*4,195,177*
Foreign exchange options	*3,694,292*	*13,591,965*
Securities transactions	112,508	288,721
Share options	*29,620*	*58,442*
Securities purchased pending delivery	*7,919*	*54,070*
Securities sold pending delivery	*74,969*	*176,209*
Commodity transactions	6,588	21,206
Swaps	*-*	*9,677*
Options	*6,588*	*11,529*
Interest and commission income in 2009/2008	47,554	113,641
Interest and commission expense in 2009/2008	25,906	72,520

The Group incurs costs and receives income on derivative transactions with Citigroup Inc's entities to hedge Group's position in market risk. These derivative transactions are opposite (back to back) to derivative transactions with other Group's clients to close current FX position of the Group. Net balance sheet value of financial derivative transactions as at 31 December 2009 amounted to PLN -537,831 thousand (as at 31 December 2008: PLN -968,386 thousand).

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 2009 from concluded agreements amounted in total to PLN 124,102 thousand (in 2008: PLN 155,592 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 53,668 thousand (in 2008: 67,451 thousand) arose from the provision of data processing and other services by the Group.

Transactions with subordinated entities

In thousands of PLN	31.12.2009	31.12.2008
Loans, advances and other receivables*		
Current accounts	**267,100**	**220,096**
Loans, advances and other receivables		
Opening balance	220,096	228,214
Closing balance	267,100	220,096
Deposits		
Current accounts (in respect of):	13,866	2,747
consolidated subordinated undertakings	*94*	*953*
subordinated undertakings accounted under for the equity method	*13,772*	*1,794*
Term deposits (in respect of):	198,319	228,741
consolidated subordinated undertakings	*159,713*	*179,122*
subordinated undertakings accounted under for the equity method	*38,606*	*49,619*
	212,185	**231,488**
Deposits		
Opening balance	231,488	266,961
Closing balance	212,185	231,488
Contingent liabilities granted**		
Letters of credit	-	1,008
Guarantees granted	-	904
Credit lines granted	176,192	413,572
	176,192	**415,484**
Interest and commission income in 2009/2008 (in respect of):	9,504	16,294
consolidated subordinated undertakings	*9,493*	*16,284*
subordinated undertakings accounted for under the equity method	*11*	*10*
Interest and commission expenses in 2009/2008 (in respect of):	6,816	13,679
consolidated subordinated undertakings	*5,066*	*12,724*
subordinated undertakings accounted for under the equity method	*1,750*	*955*

* *On 31 December 2009 and 31 December 2008 loans, advances and other receivables were related to taken advantage credits in current account of consolidation included units.*

** *On 31 December 2009 and 31 December 2008, contingent liabilities granted to dependent units concerned obligations granted to consolidation included units.*

As at 31 December 2009 and 31 December 2008 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	31.12.2009			31.12.2008		
	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	73,112	52	-	41,434	104	8
Staff benefits	24,970	-	-	25,441	-	-
Prepayments	9	-	-	11	-	-
	98,091	**52**		**66,886**	**104**	**8**
Deposits						
Current accounts	117,417	231	3,689	65,625	2,457	1,186
Term deposits	37,846	2,152	1,192	26,474	200	2,741
	155,263	**2,383**	**4,881**	**92,099**	**2,657**	**3,927**
Guarantees issued	-	-	-	5	-	-

45. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable 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 takes early retirement or if the participant obtains the rights to disability benefits due to incapacity for work.

  The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne 'Diament', was implemented on 19 March 2004 under an agreement with Legg Mason Senior Specjalistyczny Fundusz Inwestycyjny Otwarty (LM Senior SFIO) and is registered in the District Court for Warsaw under number RFJ-8. 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 of PLN 4,076 thousand has been dissolved in 2008 (see note 33). 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	31.12.2009	31.12.2008
Provision for remuneration	62,768	82,265
Provision for employees' retirement and jubilee payments	44,230	47,300
Provision for employees' equity compensation	4,296	5,378
Provision for personal cost of restructurings	-	10,619
	111,294	**145,562**

In 2009, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 15,981 thousand (in 2008: PLN 16,093 thousand).

Employment in the Group:

	2009	2008
Mid employment during a year	5,330	5,701
At the end of the year	5,260	5,540

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 received options to buy stock at the NYSE closing price as at day before the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted in 2009 will be transferred partially in 33,3% every year for the next three years, starting from the first anniversary of option acquisition. Options granted in the previous years 2005-2008, were transferred partially in 25% every year, starting from the first anniversary of option acquisition. Employee losses the right to options with moment of ceasing employment in Citigroup. Options may be exercised by purchase of stocks in the period from the acquisition date of the right to an option to the expiry date of the option.

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	13.02.2002	42.11 lub 41.90	200	77,541
2	20.01.2004	49.50	69	39,505
3	18.01.2005	47.50	4	1,451
4	20.09.2005	45.36	1	1,500
5	17.01.2006	48.92	1	1,538
6	16.01.2007	54.38	1	436
7	22.01.2008	24.45	10	31,497
8	29.10.2009	4.08	213	1,121,762

CAP Program	Grant date	Exercise price/stock price at grant date	Number of eligible employees	Number of options/shares
1	17.01.2006	36.58 lub 48.77	130	15,009
2	21.11.2006	50.73	1	739
3	16.01.2007	40.84 lub 54.46	159	41,453
4	17.07.2007	52.19	1	1,917
5	16.10.2007	46.24	1	406
6	20.11.2007	32.00	1	2,344
7	22.01.2008	19.75 lub 26.33	196	192,670
8	20.01.2009	4.67	25	298,329

	Program SOP	Program CAP
Period to acquire the title (in years)	(1) 20% after each of the following years (2) and (8) 33.33% after each of the following years (3)-(7) 25% after each of the following years	25% after each of the following years
Expected variances	129.47 %	129.47 %
Life cycle of the instrument	1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	1.54 %	1.54 %
Expected dividends (in USD per one share)	0.04	0.04
Probability of premature termination of employment (annual staff turnover for awarded employees)	7 %	7 %
Fair value of one instrument* (in USD)	0.00 - 2.45	3.31

* *Varies depending on the date of exercise.*

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

	31.12.2009		31.12.2008	
	Number	Weighted average strike price	Number	Weighted average strike price
At the beginning of the period	259,274	38.93	250,616	40.75
Allocated in the period	1,121,762	4.08	31,497	24.45
Redeemed in the period	-	-	-	-
Expired in the period	105,806	-	22,839	-
At the end of the period	1,275,230	8.47	259,274	38.93
Exercisable at the end of the period	159,693	43.50	225,775	40.86

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

31.12.2009			31.12.2008		
Striking price range (in USD)	Number (in thousand of pieces)	Weighted average period to the end of life cycle (in years)	Striking price range (in USD)	Number (in thousand of pieces)	Weighted average period to the end of life cycle (in years)
41.90	0.81	0.00	41.90	1.77	0.00
42.11	76.73	0.00	42.11	96.38	0.00
-	-	-	32.05	69.85	0.00
49.5	39.51	0.00	49.5	54.76	0.00
47.5	1.45	0.05	47.5	1.55	0.55
45.36	1.50	0.72	45.36	1.50	1.22
48.92	1.54	0.55	48.92	1.54	1.05
54.38	0.44	1.05	54.38	0.44	1.55
24.45	31.50	1.55	24.45	31.50	2.55
4.08	1,121.76	2.83	-	-	-

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

	31.12.2009		31.12.2008	
	Number	Weighted average strike price	Number	Weighted average strike price
At the beginning of the period	445,634	28.33	226,616	42.23
Allocated in the period	291,944	4.67	304,417	21.87
Redeemed /expired in the period	184,712	-	85,399	-
At the end of the period	552,866	14.82	445,634	28.33

46. Subsequent events

After 31 December 2009 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.

47. Risk management

Risk management structure and process

Group's activities involve analysis, assessment, approval and management of the broad set of risks associated with a business. Such risk management process is performed at different units and levels of the organization and involves among others: credit (including counterparty 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 Group's activity and the rules of prudent and stable risk management of the Group,
- Approving a general level of the Group's risk appetite,
- Approving the fundamental organizational structure of the Group, determined by the Group's Management Board and harmonized with the size and the profile of incurred risk.

Management Board of the Group by way of a resolution:

- Approves the organizational structure of the Group, 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 Group,
- Sets general risk appetite levels accepted by the Group'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 and Capital Management Committee with Business Risk, Control and Compliance Commissions (BRCC).

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

- Introducing in the Group 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 Group'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 Risk Management 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 Bank 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.

Risk management in the Group 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.

Main types of the 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 Group's business activities, including:

- Credits and loans,
- FX sales and trading,
- Derivatives,
- Securities transactions,
- Settlements,
- Transaction in which the Group acts as an intermediary on behalf of its clients or other third parties.

The framework set in Credit Risk section of these document covers different types of credit exposure resulting from these activities, as defined in relevant Credit Policies.

Additionally within the credit risk management frame Group manages also the exposure's **concentration risk** applied as well to the risk mitigating rules (including taking collaterals).

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

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

Revenue risk is the risk of failure to achieve planned revenue or the risk of revenue decrease resulted from impact of external or/and internal factors.

Credit risk

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.

Principles of the Credit Risk Management Policy

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

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

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

Each portfolio has annual stress testing performed.

Credit assessment and Risk Rating

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

Obligor Risk Rating is an element of the assessment of credit risk associated with granted credit. Obligor Risk Rating reflects an estimated probability of default for an obligor within 1 year, and is derived primarily through the use of statistical models, external rating agencies (in certain situations), or scoring methodologies.

In relation to the certain portfolios Group applies also Obligor Limit Rating (OLR) which is a measure of medium to long-term risk of the obligor. It takes into account several qualitative factors impacting credit quality of an obligor against the Group: (i) cyclicality, (ii) management, (iii) strategy, (iv) sustainability, (v) vulnerability to regulatory environment, (vi) transparency and quality of controls.

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

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

At a facility level, which may include one or more contracts, availments or transactions
At an obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed.
At a group level, considering the group structure of multiple obligors with common ownership and/or organization

At portfolio level where Portfolio Risk Rating is calculated as average rating of individual facility exposure ratings weighted with the size of exposure.

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

Credit Risk Monitoring

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

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

In addition to the various credit reporting processes, risk management specialists, respective portfolios managers and business representatives conduct regular round tables regarding the portolio to review business pipelines and discuss the credit issues.

Dedicated MIS systems allow for detailed analysis credit risk elements (e.g. exposure level, dpd or credit losses level) in various profiles (e.g. customer, credit portfolio, customer segment and product).

Risk mitigation

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

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

In case of individual customers in addition there are use the following means to mitigate the 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.

Periodic stress tests allow identifying portfolio tractability for specified outdoor factors.

Management of the 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 the 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 convenants,
- The probability that the borrower will enter banktuptcy 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 allowance for write-offs on impaired loans by conducting a review of loan portfolio.

Classifiably managed accounts

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

- Aggregated exposure to the customer,
- The viability of the customer's business model and the capacity to successfully work out their financial difficulties,
- Generating sufficient cash flow to service debt obligations,
- The amount and timing of expected payments,
- The realisable 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 to be reviewed at least quarterly. The review includes collateral held and an assessment of actual and anticipated payments.

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. The receivables are coordinate with risk categories from I to IV, where I means receivables without impairment and II, III, IV means receivables with impairment.. Exposure without impairment are classified based on risk ratings with value form 1 to 8, where risk category 1 is the best category.
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 39), the debt securities available for sale (discussed in Note 20), the financial assets provided for trading (discussed in Note 19) and other assets (discussed in Note 29).

In thousand PLN	31.12.2009		31.12.2008	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Receivables with recognized value loss				
Individually Assessed receivables				
Risk category II	445,631	-	187,007	-
Risk category III	379,375	-	207,887	-
Risk category IV	607,205	-	994,211	2,253
Gross value	**1,432,211**	**-**	**1,389,105**	**2,253**
Impairment	771,034	-	1,000,523	2,253
Net value	**661,177**	**-**	**388,582**	**-**
Collectively Assessed receivables				
Risk category II	40,981	-	18,767	-
Risk category III	31,948	-	24,283	-
Risk category IV	752,573	-	498,748	-
Gross value	**825,502**	**-**	**541,798**	**-**
Impairment	547,973	-	389,528	-
Net value	**277,529**	**-**	**152,270**	**-**
Not impaired receivables				
Risk rating 1-4	10,424,498	3,330,097	12,304,080	2,875,124
Risk rating 5-6	1,711,223	148,398	1,394,529	43,272
Risk rating 7-8	367,081	-	395,002	101,129
Gross value	**12,502,802**	**3,478,495**	**14,093,611**	**3,019,525**
Impairment	141,982	766	70,701	1,788
Net value	**12,360,820**	**3,477,729**	**14,022,910**	**3,017,737**
Total net value	**13,299,526**	**3,477,729**	**14,563,762**	**3,017,737**

In thousand PLN	31.12.2009		31.12.2008	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Impairment value for receivables with recognized value loss				
Impairment value for receivables assessed individually				
Risk category II	52,136	-	20,234	-
Risk category III	153,524	-	69,974	-
Risk category IV	565,374	-	910,315	2,253
	771,034	**-**	**1,000,523**	**2,253**
Impairment value for receivables assessed collectively				
Risk category II	7,783	-	4,322	-
Risk category III	9,014	-	7,551	-
Risk category IV	531,176	-	377,655	-
	547,973	**-**	**389,528**	**-**
IBNR provisions				
Risk rating 1-4	117,828	523	54,865	2
Risk rating 5-6	12,081	243	6,178	322
Risk rating 7-8	12,073	-	9,658	1,464
	141,982	**766**	**70,701**	**1,788**
Total net value	**1,460,989**	**766**	**1,460,752**	**4,041**

In thousand PLN	31.12.2009	31.12.2008
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
0-30 days	15,814,978	16,992,453
Overdue receivables		
31-90 days	161,678	120,639
91-180 days	2,368	44
181-365 days	227	-
over 366 days	322	-
Gross value	**15,979,573**	**17,113,136**

Reserve cover ratio for Group's receivables are presented below:

	31.12.2009	31.12.2008
Gross value		
Receivables with recognized impairment, including:	2,257,713	1,933,156
Individually estimated receivables	*1,432,211*	*1,391,358*
Portfolio estimated receivables	*825,502*	*541,798*
Receivables without recognized impairment	15,984,297	17,113,136
Gross value in total	**18,239,010**	**19,046,292**
Impairment		
Receivables with recognized impairment, including:	1,319,007	1,392,304
Individually estimated receivables	*771,034*	*1,002,776*
Portfolio estimated receivables	*547,973*	*389,528*
Receivables without recognized impairment	142,748	72,489
Impairment in total	**1,461,755**	**1,464,793**
Net value		
Receivables with recognized impairment, including:	938,706	540,852
Individually estimated receivables	*661,177*	*388,582*
Portfolio estimated receivables	*277,529*	*152,270*
Receivables without recognized impairment	15,838,549	17,040,647
Net value in total	**16,777,255**	**17,581,499**
Reserve cover ratio for receivables with recognized impairment	**58.4%**	**72.0%**

As at 31 December 2009, the receivables without impairment include cash loans of PLN 133,842 thousand (gross), granted to individuals with maximum two months period of credit repayment prolongation .

The policies for collateral and other risk mitigation acceptance

In distinction from general rules of risk mitigation specific for Corporate and Consumer area, the Group has common rules of collateral policy and other methods of risk mitigation, including parent and third party guarantees and similar forms of support (jointly called: collateral).

Creditworthiness and customer ability to repay is a primary decision criteria based upon which the Group approves credit to both individuals and companies alike.

The Group 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 independent risk unit responsible for management and monitoring of collaterals was created in the Group. The key elements of the process include:

- Definition of collateral acceptance criteria,
- Collateral appraisal and its validity period,
- Standardized documentation,
- Rules of collateral monitoring process,
- Inspections and insurance requirements.

The Group requires additional collateral from the customer when the liquidity declines or worsens 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 Group monitors if the actual structure of the collateral portfolio is compliant with the assumed.

Concentration of exposure

The Group sets the limits and manages exposures in the way to ensure proper risk diversification in the portfolio. In the frame of credit risk management the Group defines the exposure concentration limits related to the maximum exposure:

- against one obligor or capital group of customers,
- against particular industries (based on the US GAAP industry classification),
- in specific foreign currency,
- against capital group of Group's majority shareholders.

First two concentrations – against obligor and industries - regard in particular Corporate and Commercial Banking portfolios and are assessed as the most significant from the risk management point of view in the Group.

In the frame of concentration management in the face of obligor/relationship exposures Group also monitors the limits defined by the act „Banking Law" and others supervisor resolutions to ensure compliance with these regulations, including determining of additional capital requirement due to these exposures when needed.

Counterparty concentration risk

The Group sets out to limit its exposure to a single customers or capital group of customers. As at 31 December 2009, the Group's exposure in banking portfolio transactions with the group of customers, which all-in exceeded 10 % of the Group's equity (defined in next part of the statement),, amounted to PLN 2,885,442 thousand, i.e. 71.2% of these funds (31 December 2008: PLN 2,161,636 thousand i.e. 64.8%).

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

In thousand PLN	31.12.2009			31.12.2008		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding
Group 1	70,536	657,004	727,539	187,916	311,341	499,257
Group 2	284,984	351,906	636,890	344,592	408,274	752,866
Group 3	251,321	312,657	563,978	267,359	179,323	446,682
Group 4	252,989	226,951	479,940	245,000	5,000	250,000
Client 5	7,512	469,583	477,095	135,195	327,636	462,831
Client 6	1	319,519	319,520	6	312,102	312,108
Group 7	211,117	102,983	314,100	86,728	235,094	321,822
Group 8	4	275,972	275,976	113,757	188,303	302,060
Group 9	116,575	139,182	255,757	111,534	164,381	275,915
Group 10	9,905	244,626	254,531	238,175	38,605	276,780
Total	**1,204,943**	**3,100,383**	**4,305,326**	**1,730,262**	**2,170,059**	**3,900,321**

** Excluding outstanding on commercial papers and subsidiaries.*

The Banking Act of 29 August 1997 and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for the 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 Group or is a subsidiary undertaking to a parent entity of the Group or cannot exceed 25% of the Group's equity when there is no such relationship between the Group and the borrower. Pursuant to provisions of the Resolution No. 380/2008 of the Polish Financial Supervision Authority dated 17 December 2008 regarding specific rules for calculating capital requirements for banking risk categories (...) the Group 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. 381/2008 of the Polish Financial Supervision Authority dated 17 December 2008 regarding specific rules for other reductions for calculating Group's primary funds (...).

As at 31 December 2009, 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 2009.

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 there are established and monitored the proper industry exposure limits.

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 and in division of business activity in particular reporting periods.

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2009	31.12.2008
	in %	in %
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	18.9	17.9
Provision of power, gas, steam and hot water	7.9	5.7
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of personal commodities	7.6	5.7
Production of food and beverages	7.0	6.8
Financial intermediation, except for insurance and retirement fund business	6.1	11.1
Production of chemicals	4.0	4.6
Production, sale and service of vehicles and motorcycles; retail sale of fuel for car vehicles	3.7	3.3
Production of machines and equipments	3.7	2.8
Fabricating of coke, petroleum products and nuclear fuels	3.6	1.7
Production of rubber and plastic goods	3.6	3.2
Top 10 business sectors	**66.1**	**62.8**
Postal services and telecommunications	3.6	3.0
Other services concerned with economic activity transport	2.9	2.1
Building industry	2.7	2.7
Production of metallic goods, except for machines and equipment	2.4	2.0
Production of other transportation equipment	2.0	1.8
Public administration; Compulsory social insurances and general health insurances	1.9	1.5
Production of vehicles, trailers and semi- trailers	1.9	1.9
Land based transport, pipeline	1.9	2.1
Production of goods out of other non-metallic resources	1.6	2.1
Organizations and extraterritorial groups	1.5	1.0
Top 20 business sectors	**88.5**	**83.0**
Other sectors	**11.5**	**17.0**
Total	**100.0**	**100.0**

Although concentration in some industries has changed in comparison with the end of 2009, the overall portfolio concentration remains on similar level.

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

In thousand PLN	31.12.2009	31.12.2008
Gross receivables from economic entity and banks		
Financial	4,697,387	3,870,650
Production	2,799,801	3,875,943
Services	1,359,136	1,850,503
Other	3,204,188	3,713,016
	12,060,512	**13,310,112**
Gross receivables from individuals	**6,178,498**	**5,774,528**
(see note 23)	**18,239,010**	**19,084,640**

There are also monitored other potential concentrations – geographic and collateral – but on Group's portfolio characteristic account there are no limits set for these kinds of concentration.

Market risk

The processes and organization of market risk management

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

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

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.

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.

Funding and Liquidity Plan

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

Liquidity risk management tools

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

Internal liquidity risk management tools

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

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

Stress scenarios

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

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

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

Contingency Funding Plan

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

Contingency Funding Plan defines:

- Circumstances / symptoms of contingency liquidity events,
- Roles and responsibilities for executing the action plan,

- Sources of liquidity, and in particular the principals of maintenance of liquid assets portfolio, do be used in the case of liquidity crisis,
- Rules for assets liquidation and balance sheet restructuring
- Procedures for reassuming the customers confidence,

The levels of the modified gap in financial flows and the level of liquid assets as at 31 December 2009 and 31 December 2008 are shown in the tables below.

The liquidity gap as at 31 December 2009 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	6,299,562	28,303	-	-	31,305,198
Liabilities	5,929,337	92,777	733,525	17,102	30,860,322
Balance sheet gap in the period	370,225	(64,474)	(733,525)	(17,102)	444,876
Off-balance sheet transactions - inflows	4,944,444	2,756,240	4,595,140	2,746,777	3,386,498
Off-balance sheet transactions - outflows	4,860,474	2,783,460	4,575,245	2,728,165	3,594,798
Off-balance sheet gap in the period	83,970	(27,220)	19,895	18,612	(208,300)
Cumulative gap	454,195	362,501	(351,129)	(349,619)	(113,043)

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

In thousands of PLN	31.12.2009	31.12.2008	Change
Liquid assets, including:	14,358,026	15,247,016	(888,990)
obligatory reserve in NBP and stable part of cash	3,792,008	3,183,925	608,082
debt securities held for trade	2,275,793	1,248,263	1,027,531
debt securities available for sale	8,290,225	10,814,828	(2,524,604)
Cumulative liquidity gap up to 1 year	(351,129)	(1,149,677)	798,548
Coverage of the gap with liquid assets	4,089%	1,326%	2,763%

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

As at 31 December 2009:

In thousand 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	19	10,412	10,412	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	32	4,735,264	4,619,908	69,609	37,202	4,704	11	3,830
Including banks	*32*	*1,632,656*	*1,603,718*	*3,616*	*24,756*	*137*		*429*
Deposits from non-financial sector	32	20,571,961	18,881,508	1,164,520	477,533	27,625	64	20,711
Other liabilities	32	1,052,815	176,396	29,176	744,911	1,997	97,707	2,628
		26,360,040	23,677,812	1,263,305	1,259,646	34,326	97,782	27,169
Financial liabilities held for trading								
Derivative financial instruments	19	2,528,856	96,139	171,480	418,153	1,137,079	706,005	-
Unused credit lines liabilities		11,428,560	11,014,695	2,221	232,763	161,753	17,128	-
		40,327,868	**34,799,058**	**1,437,006**	**1,910,562**	**1,333,158**	**820,915**	**27,169**
Gross derivatives								
Inflows		17,483,742	4,521,371	2,777,426	3,313,231	4,206,331	2,665,383	
Outflows		17,310,581	4,502,375	2,804,959	3,222,380	4,131,948	2,648,919	
		173,161	**18,996**	**(27,533)**	**90,851**	**74,383**	**16,464**	

As at 31 December 2008

In thousand 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 valued at amortized cost								
Deposits from financial sector	32	7,922,266	7,829,200	43,691	40,407	4,743	-	4,225
Including banks	*32*	*3,336,022*	*3,287,207*	*13,223*	*34,457*	*-*	*-*	*1,135*
Deposits from non-financial sector	32	19,935,083	18,256,867	1,298,410	325,730	27,065	84	26,927
Other liabilities	32	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	19	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**	

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.

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.

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.

Follow the IRE measures for the Group valid on 31 December 2009 and 31 December 2008. 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	31.12.2009		31.12.2008	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	(25,017)	30,599	7,642	104,071
USD	4,196	13,497	(394)	3,351
EUR	5,709	9,752	(8,836)	(42,808)

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.

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.

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	31.12.2009			31.12.2008			Overall between 01.01.2009 and 31.12.2009		
	Total	Securities	IRS	Total	Securities	IRS	Average	Minimum	Maximum
PLN	(1,631)	(1,631)	-	(1,246)	(1,246)	-	(1,500)	(1,695)	(1,253)
USD	-	-	-	(99)	(99)	-	(42)	(104)	-
EUR	(180)	(180)	-	(766)	(766)	-	(605)	(880)	(180)

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.

Pricing risk of the trading portfolios

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

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

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

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

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

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

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

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

Each day 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 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 2009 have been listed in the table below:

in thousands of PLN	31.12.2009	31.12.2008	Overall between 01.01.2009 and 31.12.2009		
			Average	Maximum	Minimum
PLN	(192)	(42)	(211)	319	(655)
EUR	54	23	(6)	161	(184)
USD	1	(10)	(9)	26	(82)

The marked exposure to the interest rates risk, in the year 2009, compared with the year 2008 has increased by 30%. Highest exposure was taken in LCY (average DV01 was at the -211 thousand PLN level comparing to -121 thousand PLN in 2008) while the risk appetite in EUR was lower (average position was 30 thousand PLN lower than in 2008). What's regarding the maximum position taken by Treasury they were higher for domestic currency (i.e. maximum position in PLN was -655 thousand PLN comparing to -515 thousand PLN in 2008 and was lower in other currencies (i.e. in EUR -184 thousand PLN comparing to -218 thousand PLN in 2008).

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 2009:

in thousands of PLN	31.12.2009	31.12.2008	Overall between 1.01.2009 and 31.12.2009		
			Average	Maximum	Minimum
FX risk	267	114	5,177	17,047	77
Interest rate risk	2,703	3,511	6,814	16,752	1,956
Overall risk	2,741	3,514	8,566	17,619	2,248

In the year 2009, the overall, average level of the pricing risk of the trading portfolios was much higher than medium level in year 2008 of about PLN 5 million, mainly as a result of exposures levels increasing and maintaining of high variability of main market factor. Maximum price risk level gain amount of PLN 17.6 million, compared to amount of PLN 14.6 million in the same period of the year 2008.

Capital instruments risk

The Dom Maklerski Banku Handlowego S.A. (DM BH) 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 structure of the Group

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

31 December 2009

In thousand of PLN	Balance sheet transactions		Off balance sheet transactions		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	3,669,009	4,489,670	8,122,778	7,287,217	14,900
USD	1,772,201	2,276,786	3,256,814	2,728,730	23,499
GBP	574,394	614,258	71,514	33,561	(1,911)
CHF	429,129	340,517	183,229	271,488	353
Other currencies	265,233	283,362	1,058,431	1,032,462	7,840
	6,709,966	**8,004,593**	**12,692,766**	**11,353,458**	**44,681**

31 December 2008

In thousand of PLN	Balance sheet transactions		Off balance sheet transactions		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**

Operational risk

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

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

The Group's approach to operational risk is described in the Policy for the Operational Risk Management and the Self-assessment Procedure. The objective of this policy is to provide for a consistent and effective process of identification, control, assessment, monitoring, measurement and reporting of operational risk as well as for general effectiveness of the internal audit environment throughout the Bank. Each of the main business segments and every entity of the Group must have its operational risk management process in place that is consistent with requirements of the policy. The risk self-assessment procedure (RCSA) is used for assessment whether the control environment operates effectively. Operational risk reports – presented regularly to appropriate Committees – include data required for monitoring of the Bank's operational risk profile, such as internal and external audit results, self-assessment results (RCSA), key operational risks and risk indicators (KRIs), operational losses, information and problems relating to business continuity plans data security and capital requirements. Synthetic information on the operational risk profile is passed on to respective Bank Supervisory Board Committees. The family of operational risks (including the technological, legal, non-compliance, reputational and other risks) is managed through an effective control environment, because the appetite for residual operational risk is very limited.

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

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

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

- Supervisory Board:
  - the Supervisory Board approves the Group's strategy and the rules of prudential and stable risk management in the Group, prepared by the Management Board and covering operational risk arising in the course of the Group's activity, and particularly the general rules of the operational risk management;
  - on the basis of synthetic reports submitted by the Management Board, which define the scale and the types of operational risk the Group is exposed to, the probability of its occurrence, its consequences and methods of its management, as well as the operational risk profile, the Supervisory Board performs periodic assessments of implementation of the assumptions of the strategy by the Management Board;
  - the Supervisory Board exercises oversight over the control of the operational risk management system and assesses its adequacy and effectiveness.
- Management Board
  - the Management Board is responsible for development and implementation of the risk management strategy, including organization and effective functioning of operational risk management process. Management Board sets the policy, rules and procedures of operational risk management, including the entire scope of the Group's operations. With support of the relevant appointed Committees, the Group Management Board adopts decisions relating to capital planning and monitoring of capital adequacy and to the adjustments necessary for the purpose of upgrading the systems and processes, in the case of material changes in the level of risk in the Group's activity, in external economic factors or at identification of substantial irregularities;
  - the Management Board is responsible for the establishment of and changes to the Group's organizational structures with the aim of adjusting them to the strategy, the risk profile , the market and the regulatory environment;
  - the Management Board is responsible for preparation and presentation to the Supervisory Board of synthetic reports on operational risk;
  - the Management Board ensures disclosure of information enabling assessment of the Group's approach to operational risk management to the market environment.

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

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

Arrangement and execution of effective operational risk management process in subsidiaries rests with subsidiaries Management Boards. Management Boards of subsidiaries assure adequacy of organizational structures and implementation of processes and procedures aligned with undertaken operational risk. Supervisory Boards of subsidiaries maintain surveillance over operational risk management system and assess it's effectiveness and adequacy. Cohesion of standards is provided by relevant units in subsidiaries, supported by Bank operational risk management unit. Effectiveness of operational risk management in subsidiaries and Group is audited and assessed against unified criteria.

Risk measurement and control mechanisms

Risk identification, self-assessment and reporting processes, in main aspects, are standardized and generally accepted by all Bank's organizational units.

Risk mitigation, monitoring, and measurement processes are defined by each Business Unit and may differ between Business Units.

Control processes introduced in the Group mitigate causes, reduce the probability of events' occurrence and minimize the severity of effects. Examples of control mechanisms might include: segregation of duties (maker-checker), monitoring of established limits, employee personal trading policy pre-clearance requirements. Risk mitigation measures include also risk transfer mechanisms (outsourcing, insurance).

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 of the adequacy and effectiveness of the Key Controls, at a frequency commensurate with the underlying risk and frequency of the control, and independent review by internal audit. In case of identification of deficiency or an area of uncontrolled risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Completion of corrective actions falls under independent monitoring and control.

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

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

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

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

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

Monitoring and Reporting

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

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

- Results of internal and external audits,
- RCSA Results,
- KRI – Key Risk Indicators,
- Operational Risk Events (operational losses), also in comparison to MPR revenues for major business units of the Group,
- Information about Control Issues and CAPs,
- COB and Information Security – updates and issues,
- Capital requirements,
- Stress Tests.

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

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

Stress tests

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

Revenue risk

The risk of failure to achieve planned revenue is a danger of revenue decrease resulted from impact of external or/and internal factors.
The risk is managed by the proper planning including negative political-economic scenarios for the country as well.
The Group conducts stress tests for the budget, which include impact of stress tests' results for all risks (credit losses, operational losses, etc.) and stress tests' results for the Group's revenue.

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 6.2 bn. as at 31 December 2009 (as at 31 December 2008 – PLN 5.6 bn.). Regulatory capital, which included increases and decreases set by the Polish Financial Supervision Authority (KNF), amounted to PLN 4.3 bn. (as at 31 December 2008 – PLN 3.7 bn.) Such capital level is regarded as sufficient for conducting business activity and therefore the Bank plans to preserve current capital structure. The capital level is regularly monitored using capital adequacy ratio.

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 Group's goal is the implementation of the advanced approach for estimation of the above-mentioned risks.

Beginning from 2008 the Bank has launched the process of estimating internal capital. The Bank identifies significant risks and assesses the capital required for coverage of these risks.

The Bank determines policy of future dividend's payment in the process of capital management.

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

48. Statement of the Bank's Management Board

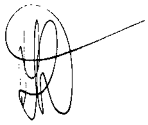
Accuracy and fairness of the statements presented

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, Mrs. Sonia Wędrychowicz-Horbatowska - Vice-President of the Management Board, Mr. Witold Zieliński – Vice-President of the Management Board and Mrs. Iwona Dudzińska – Member of the Management Board, the annual financial data and the comparative data presented in the "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 2009" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank. The Annual Report on Activities of the Management Board contained in this document is a true representation of the development, achievements and situation (together with a description of the main kind risks) of the Bank in 2009.

Selection of the auditor authorized to examine financial statements

The entity authorized to examine financial statements KPMG Audyt Sp. z o.o., reviewing "The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2009", was selected consistently with the legal regulations. KPMG Audyt Sp. z o.o. and the registered auditors reviewing the statement 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
10.03.2010	Sławomir S. Sikora	President of the Management Board	
10.03.2010	Michał H. Mrożek	Vice-President of the Management Board	
10.03.2010	Sonia Wędrychowicz--Horbatowska	Vice-President of the Management Board	
10.03.2010	Witold Zieliński	Vice-President of the Management Board	
10.03.2010	Iwona Dudzińska	Member of the Management Board	

Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2009

Poland's economy in 2009

Main macroeconomic trends

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

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

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

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

Money and forex markets

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

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

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

Capital market

The year 2009 brought about clear improvement in the sentiment prevailing in the equities market. In the course of that year the Warsaw Stock Exchange (WSE) registered some impressive growth stories in all of its major indices. The WIG index gained 46.9% while the small cap segment sWIG80 index registered the most substantial growth (+61.8%) in the year. The blue chips completed the year gaining 33.5% compared to the end of 2008. Worth noting among the sector-specific sub-indices are the developers and the food sector companies. The companies of these sub-sectors achieved in 2009 gains of over 100%: 124.8% and 126.2% respectively. The sub-sector index which came out with the lowest rate of return was WIG-Telecommunications (+1.9% YOY), primarily because of the relatively weak track record of the Telekomunikacja Polska shares.

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

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

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

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

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

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

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

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

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

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

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

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

Banking sector

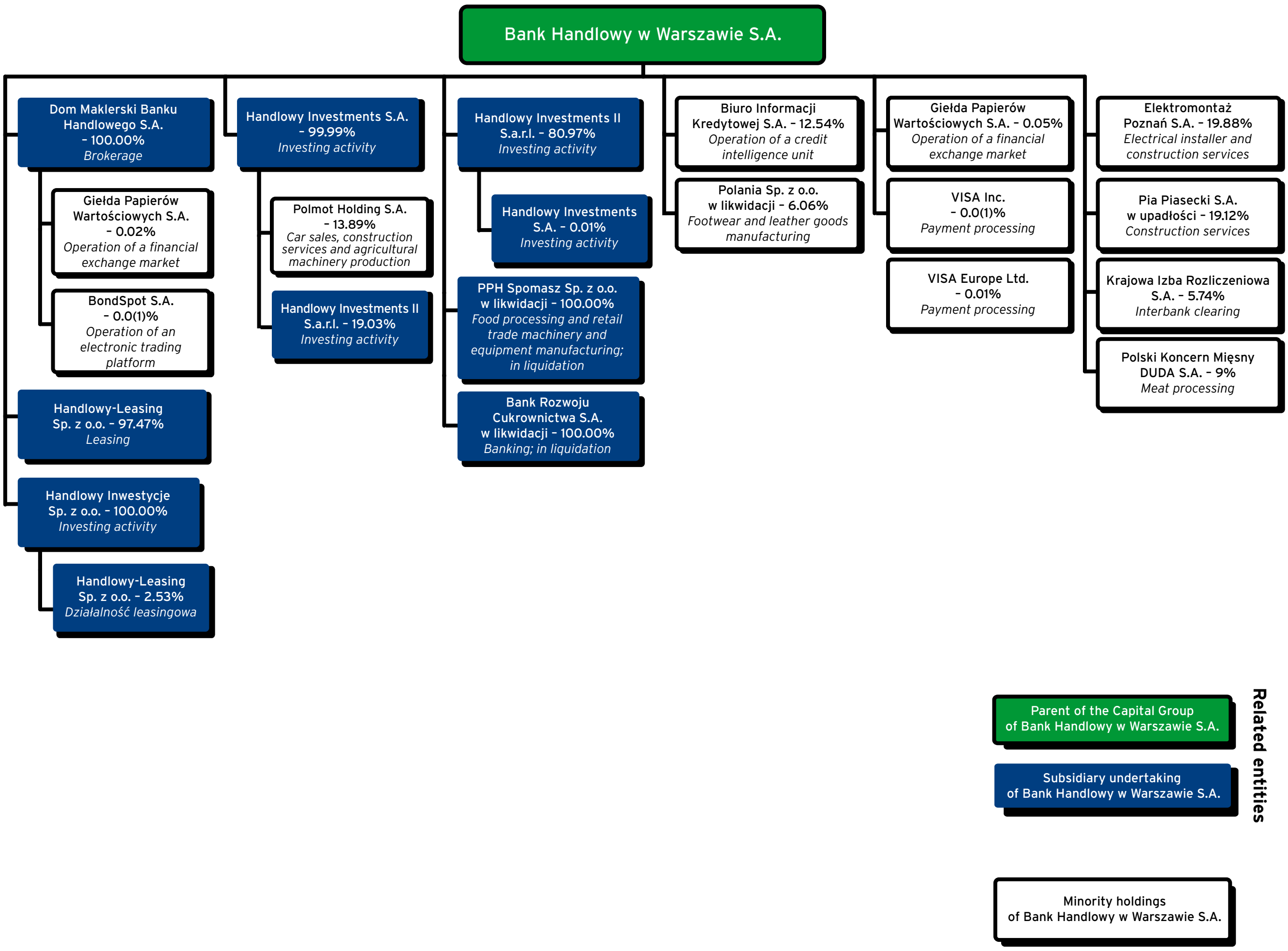
In the year 2009 Polish banking market remained under strong influence of unfavourable macroeconomic conditions prevailing in the global economy. The depressed growth of the economy caused serious strain and added risk to banking activities. Additionally, the drastic reduction of liquidity in the interbank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

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

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

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

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 31 December 2009; the Bank's share interest in each specified.



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	Core business	Capital relationship	% of authorised capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	6,134,623*
Dom Maklerski Banku Handlowego S.A. ("DMBH")***	Brokerage	subsidiary	100.00%	full consolidation	90,776
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	158,667
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	28, 991
PPH Spomasz Sp. z o.o. w likwidacji***	ceased operations	subsidiary	100.00%	full consolidation	company in liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per stand-alone balance sheet of the Bank in respect of 2009.*
*** Including indirect participations.*
**** Pre-audit data.*

Group entities not fully consolidated

Entity	Core business	Capital relationship	% of authorised capital held	Accounting method	Equity (PLN '000)
Handlowy Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	12,089
Handlowy Investments II S.a.r.l.***	Investing activity	subsidiary	100.00%**	equity valuation	6,927
Bank Rozwoju Cukrownictwa S.A. w likwidacji***	Banking	subsidiary	100.00%	equity valuation	company in liquidation

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

On 23 March 2009 the Bank sold all 338,914 shares it held in BondSpot S.A. (before the name change - MTS CeTo S.A.), with nominal value of PLN 1.00 per share and total nominal value of PLN 338,914.00, which represented 3.39% of its share capital. Currently 1 share of the BondSpot S.A. is being possessed by the Bank through its subsidiary - Dom Maklerski Banku Handlowego S.A.

In 2009 the Bank executed a transaction involving divestment of shares in Centrozap S.A. Bank via Warsaw Stock Exchange (WSE) sold a stake of 1,939,521 shares in the said company, with nominal value of PLN 1.00 per share and total nominal value of PLN 1,939,521.00 which represented 1.33% of its share capital.

In the second half of 2009 as a result of a receivables conversion entitled to the Bank towards PKM DUDA S.A. on entity shares, Bank took up 20,369,538 shares of PKM DUDA S.A with nominal value of PLN 1 per share and total nominal value of PLN 20,369,538 which represented 9.0 % of its share capital.

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

Highlights of the year 2009

2009 was a difficult period for banking sector in Poland. Despite unfavourable conditions the Group noted successes. The most significant achievements are:

- Cost discipline policy **(7.8% cost reduction)**;
- Significant improvement of cost-income efficiency (cost/income ratio decreased by 8.8 p.p.);
- Net interest margin increased by 0.2 p.p.;
- Higher nonfinancial deposit balance (increase by 3.2%);
- **Dom Maklerski Banku Handlowego S.A.** leader on the market (market share in overall WSE shares and block transactions trading on the secondary market);
- **Successes in transaction servicing**: leader on share in the Polish prepaid cards market and MicroPayments (Mikrowpłaty) market; Bank received the Top Rated status in the Leading Clients (the biggest and demanding clients) category, which formed part of a prestigious survey among professional clients by Global Custodian;
- Further **optimisation of the branch network**; activities in branch network, which resulted in improvement of effectiveness of operational processes, sale, optimisation of human resources usage and infrastructure or cost reduction of management of the Bank's property.

Summary financial data of the Group

PLN million	2009	2008
Total assets	37,633.1	42,550.3
Equity	6,199.4	5,625.8
Loans*	11,974.7	13,886.0
Deposits*	20,572.0	19,935.1
Net profit	504.4	600.4
Capital adequacy ratio	16.7%	12.1%

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

Financial result of the Group for the year ended 31 December 2009

Income Statement

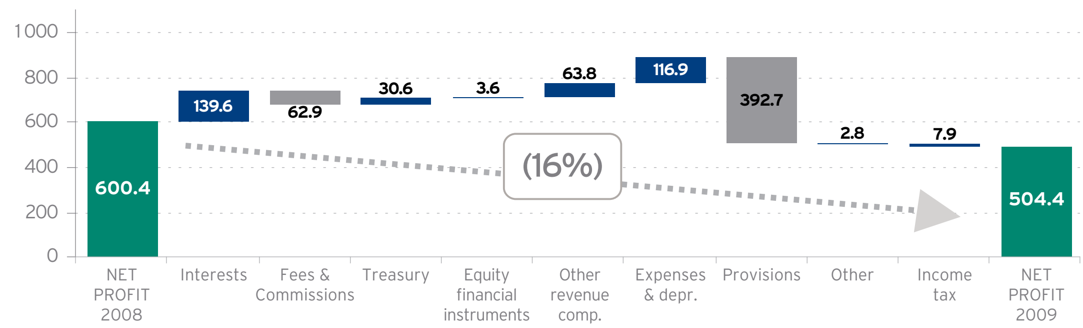
The Group's gross profit for the year 2009 reached PLN 655.3 million and was PLN 103.9 million or 13.7% lower than a year earlier. Its consolidated net profit for the year 2009 reached PLN 504.4 million, which means a decline of PLN 96.0 million or 16.0% compared to 2008.

Selected income statement items

PLN '000	2009	2008	Change	
			PLN '000	%
Net interest income	1,505,381	1,365,750	139,631	10.2%
Net commission income	556,014	618,945	(62,931)	(10.2%)
Dividend income	6,451	11,761	(5,310)	(45.1%)
Net gains on financial instruments held for trading and on revaluation	269,248	259,342	9,906	3.8%
Net gains on investment debt securities	77,845	57,184	20,661	36.1%
Net gains on investment equity securities	3,437	(168)	3,605	2145.8%
Net other operating income	158,630	89,425	69,205	77.4%
Total income	**2,577,006**	**2,402,239**	**174,767**	**7.3%**
Overheads and general administrative expenses and depreciation, including:	(1,379,055)	(1,495,908)	116,853	7.8%
Overheads and general administrative expenses	(1,300,208)	(1,398,793)	98,585	7.0%
Depreciation/amortisation of tangible and intangible fixed assets	(78,847)	(97,115)	18,268	18.8%
Net gains on sale of fixed assets	2,698	3,255	(557)	(17.1%)
Net change in impairment losses	(545,809)	(153,080)	(392,729)	(256.6%)
Share in net profits/(losses) of entities valued by equity method	426	2,656	(2,230)	(84.0%)
Profit before taxation	**655,266**	**759,162**	**(103,896)**	**(13.7%)**
Income tax expense	(150,867)	(158,728)	7,861	5.0%
Net profit for the year	**504,399**	**600,434**	**(96,035)**	**(16.0%)**

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 2009



The key factors contributing to the reduced earnings included: an increase in net impairment losses of PLN 545.8 million in 2009 as against PLN 153.1 million in 2008 (PLN 392.7 million negative impact on net profit), and a PLN 62.9 million YOY decline in net fees and commissions. PLN 139.6 million YOY raise in net interest income and PLN 116.9 YOY decline in expenses 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 2,577.0 million (increase of PLN 174,8 million) compared to 2008. The highest impact on this increase had raise in net interest income and net other operating income.

At the same time costs of Group operating activity, overheads and general administrative expenses and depreciation were brought down by PLN 116.9 million or 7.8%.

A number of material one-off events were posted in both 2009 and 2008, which had an impact on the Group's financial result.

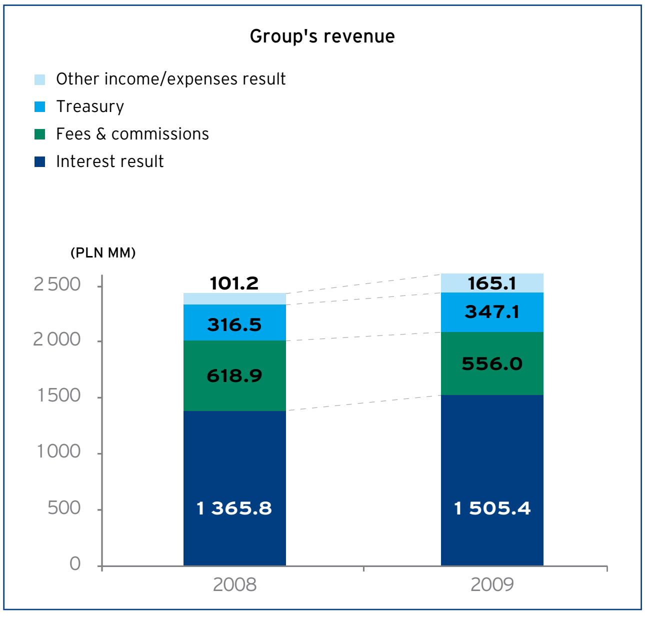
In 2009 corrections to tax settlements of value added tax have been made and the Bank filed a motion for assertion of the excess payments for the years 2005-2008. The amount of single impact of the event on gross profit for 2009 concerning the corrections of previous years amounted to PLN 128 million (out of which: PLN 125 million increase of operational revenue, PLN 3 million decrease of depreciation).

In 2008 the one-off transactions 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.

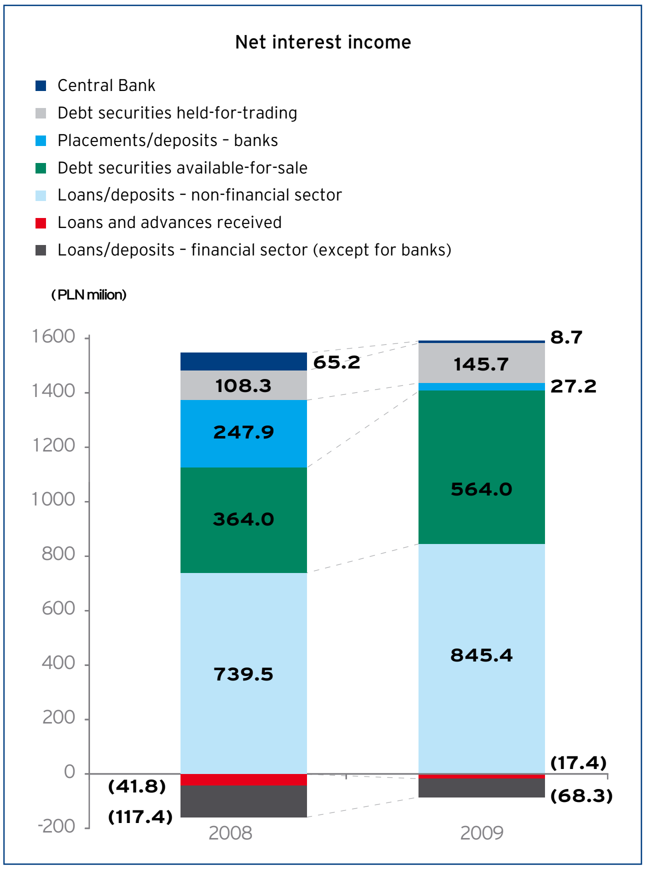
At netting out of these transactions, 2009 gross profit declined by PLN 236.7 million or 31.0% YOY, 2008 net profit declined by PLN 228.9 million or 37.8% YOY while 2009 operating income increased by PLN 74.9 million or 3.2% YOY.

Revenue

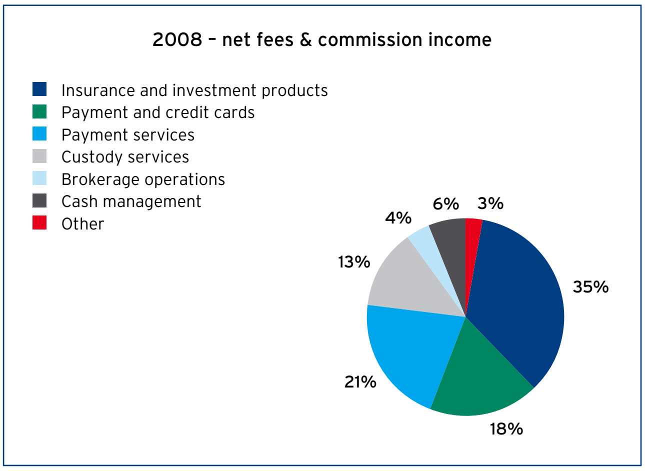
Operating income in 2009 reached PLN 2,577.0 million, a PLN 174,8 million increase on year 2008, which represented a combined effect of the following primary factors:

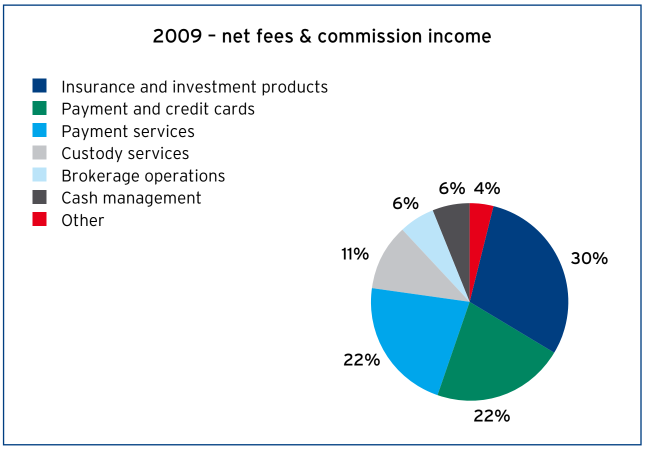


- PLN 139.6 million or 10.2% net interest income growth, primarily resulting from an increase in income on debt securities (primarily on AFS portfolio), which was driven by higher portfolio of securities and decrease of nonfinancial deposits cost (primarily corporate), which was driven by decline of interest rates and lower deposits balance;



- PLN 62.9 million or 10.2% net commission income contraction, primarily in the Consumer Bank's commissions on insurance and investment products and in commissions on custody and depositary services;





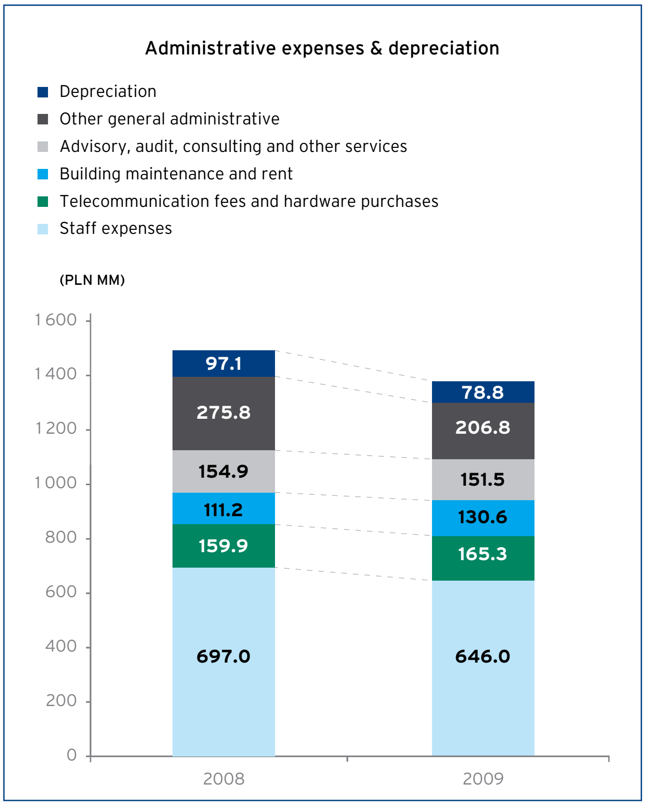
- PLN 5.3 million or 45.1% decrease in dividend income;
- PLN 20.7 million or 36.6% growth in net gains on investment debt securities: the effect of active portfolio management strategy and of successful exploitation of the favourable bond markets conditions;
- PLN 9.9 million or 3.8% increase in net gains on financial instruments held for trading and on their revaluation,
- PLN 3.6 million increase in net gains on investment equity securities; largely the effect of sale transactions executed: divestments of Centrozap S.A. and MTS-Ceto S.A;
- PLN 69.2 million or 77.4% increase in net other operating income; primarily the effect of income on tax settlement of value added tax (VAT) for the previous years.

In short, the key contributors to PLN 2,577.0 million operating income and its increase by PLN 174.8 million recognised in 2009 the highest impact had interest income, which rose by PLN 139.6 million, net other operating income , which increased by PLN 69.2 million and net commission income, which fell by PLN 62.9 million.

Expense

PLN '000	2009	2008	Change	
			PLN '000	%
Personnel costs	**645,979**	**696,961**	**(50,982)**	**(7.3%)**
General administrative expenses, among others:	**654,229**	**701,832**	**(47,603)**	**(6.8%)**
Telecommunication fees and IT hardware	165,344	159,943	5,401	3.4%
Building maintenance and rent	130,565	111,174	19,391	17.4%
Advisory, audit, consulting and other external services	151,510	154,880	(3,370)	(2.2%)
Total overheads	**1,300,208**	**1,398,793**	**(98,585)**	**(7.0%)**
Depreciation	78,847	97,115	(18,268)	(18.8%)
Total expenses	**1,379,055**	**1,495,908**	**(116,853)**	**(7.8%)**

Throughout the year 2009 the Group continued to pursue its cost discipline policy. Compared to 2008 expenses were reduced by 7.8% or PLN 116.9 million, a result of lower costs of banking activity and general administrative expenses and lower depreciation,. Depreciation, transactional costs and personnel costs in the Commercial Bank fell. The decrease of costs in the Consumer Bank was driven by rationalisation of marketing expenses, optimisation of the sale bonus system and optimisation and consolidation between corporate and retail branch network.



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

Net Impairment Losses

PLN '000	2009	2008	Change	
			PLN '000	%
Net impairment losses incurred but not reported (IBNR)	(74,942)	(16,726)	(58,216)	(348.1%)
Net impairment losses on loans and off-balance sheet liabilities	(470,867)	(136,354)	(334,513)	(245.3%)
accounted for individually	(262,350)	(60,900)	(201,450)	(330.8%)
accounted for collectively, on a portfolio basis	(208,517)	(75,454)	(133,063)	(176.3%)
Total change in impairment losses	**(545,809)**	**(153,080)**	**(392,729)**	**(256.6%)**

Total impairment losses amounted to PLN 545.8 million in 2009 – compared to PLN 153.1 million impairment losses in 2008 – was mainly a result of increased lending risk driven by general slowdown in the economy, worsening of market conditions and as a consequence financial losses of the Bank's clients in the Commercial Bank (additional negative factor was provisioning on FX options). In the Consumer Bank the increased impairment loss charges were caused by higher provisions on incurred but not reported losses (IBNR) as a consequence of worsening market conditions and growing loan and credit cards portfolios as well as the growing share of irregularly performing receivables.

Ratio analysis

Group profitability and cost efficiency ratios

	2009	2008
Return on equity (ROE)*	8.9%	11.7%
Return on assets (ROA)**	1.2%	1.5%
Net interest margin (NIM)***	3.7%	3.5%
Earnings per share in PLN	3.86	4.60
Cost/Income****	53.5%	62.3%
Non-financial sector loans to non-financial sector deposits	58%	70%
Non-financial sector loans to total assets	32%	33%
Net interest income to total revenue	58%	57%
Net commission income to total revenue	22%	26%

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

In the cost efficiency scope, the Bank achieved significant improvement, Cost/ income ratio decreased by 8.8 p.p to the level of 53,5%. The increase of net interest margin by 0.2 p.p. to the level if 3,7% is worth noted.

At the same time, there was a deterioration of return on equity (ROE), by 2.8 p.p. and return on assets (ROA) by 0,3 p.p. It was a results of lower net income, and in case of ROE, additionally, increase of capital due to 2008 net income retention.

Share of non-financial sector loans to total assets decreased slightly and reached 32% while non-financial sector loans to non-financial sector deposits ratio fell by 12 p.p. to 58%.

Balance Sheet

As at 31 December 2009, total assets of the Group reached PLN 37,633.1 million and were 11.6% lower than at the end of 2008.

Balance Sheet

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
ASSETS				
Cash and balances with central bank	4,113,355	3,530,977	582,378	16.5%
Financial assets held for trading	5,397,125	7,885,488	(2,488,363)	(31.6%)
Debt securities available-for-sale	8,290,225	10,814,828	(2,524,603)	(23.3%)
Equity investments, held at equity value	56,895	56,469	426	0.8%
Equity investments	24,140	11,095	13,045	117.6%
Loans and advances	16,777,255	17,581,499	(804,244)	(4.6%)
to financial sector	4,802,562	3,695,522	1,107,040	30.0%
to non-financial sector	11,974,693	13,885,977	(1,911,284)	(13.8%)
Property and equipment	505,192	571,947	(66,755)	(11.7%)
land, buildings and equipment	486,884	553,639	(66,755)	(12.1%)
investment property	18,308	18,308	-	0.0%
Intangible assets	1,282,574	1,283,326	(752)	(0.1%)
Deferred income tax assets	476,372	336,290	140,082	41.7%
Other assets	690,384	443,159	247,225	55.8%
Non-current assets available-for-sale	19,546	35,267	(15,721)	(44.6%)
Total assets	**37,633,063**	**42,550,345**	**(4,917,282)**	**(11.6%)**
LIABILITIES				
Liabilities towards the central bank	980,446	-	980,446	-
Financial liabilities held for trading	3,108,493	6,806,790	(3,698,297)	(54.3%)
Financial liabilities valued at amortized cost	26,359,837	29,345,498	(2,985,661)	(10.2%)
Deposits from	25,307,218	27,857,332	(2,550,114)	(9.2%)
financial sector	4,735,260	7,922,260	(3,187,000)	(40.2%)
non-financial sector	20,571,958	19,935,072	636,886	3.2%
other liabilities	1,052,619	1,488,166	(435,547)	(29.3%)
Provisions	49,390	24,578	24,812	101.0%
Income tax liabilities	-	77	(77)	-
Other liabilities	935,508	747,593	187,915	25.1%
Total liabilities	**31,433,674**	**36,924,536**	**(5,490,862)**	**(14.9%)**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	3,030,546	3,029,703	843	0.0%
Revaluation reserve	(81,026)	(144,110)	63,084	43.8%
Other reserves	2,225,712	1,627,692	598,020	36.7%
Retained earnings	501,519	589,886	(88,367)	(15.0%)
Total equity	**6,199,389**	**5,625,809**	**573,580**	**10.2%**
Total liabilities and equity	**37,633,063**	**42,550,345**	**(4,917,282)**	**(11.6%)**

Assets

Gross loan receivables*

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
Banks and other monetary financial institutions	3,478,494	3,021,777	456,717	15.1%
Non-banking financial institutions	1,346,388	751,369	595,019	79.2%
Non-financial sector entities	7,143,749	9,416,460	(2,272,711)	(24.1%)
Individuals	6,177,923	5,774,318	403,605	7.0%
Government units	86,947	71,597	15,350	21.4%
Other receivables	5,509	10,771	(5,262)	(48.9%)
Total	**18,239,010**	**19,046,292**	**(807,282)**	**(4.2%)**

* *Receivables with payable interest.*

In 2009 portfolio of non-financial loans decreased (by PLN 1,911.3 million or 13.8% YOY). In gross terms, receivables of non-financial sector corporate entities fell by PLN 2,272.7 million or 24.1% whereas receivables of individuals rose by PLN 403.6 million or by 7.0%.

Receivables from non-banking financial institutions increased by PLN 595.0 million or 79.2%, as well as receivables from banks and other monetary financial institutions (PLN 456.7 million increase or 15.1%)

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

Debt securities portfolio

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
Treasury bonds	10,471,216	7,802,405	2,668,811	34.2%
NBP bonds	-	383,665	(383,665)	-
Municipal bonds	19,016	-	19,016	-
Treasury bills	827	1,826,120	(1,825,293)	(100.0%)
Certificates of deposit and banks' bonds	40,729	26,065	(26,065)	(56.3%)
Issued by non-financial entities	34,230	21,929	12,301	56.1%
Issued by financial entities	-	3,185	(3,185)	-
NBP bills	-	1,999,722	(1,999,722)	-
Total	**10,566,018**	**12,063,091**	**(1,497,073)**	**(12.4%)**

Liabilities

Financial liabilities valued at amortised cost

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
Due to financial sector	**4,731,434**	**7,918,041**	**(3,186,607)**	**(40.2%)**
- banks and other monetary financial institutions	1,632,227	3,334,887	(1,702,660)	(51.1%)
- due to non-banking financial sector	3,099,207	4,583,154	(1,483,947)	(32.4%)
Due to non-financial sector including:	**20,551,250**	**19,908,156**	**643,094**	**3.2%**
- corporate clients	10,576,734	11,794,311	(1,217,577)	(10.3%)
- individuals	6,336,304	5,472,599	863,705	15.8%
Other liabilities including accrued interest:	**1,077,153**	**1,519,301**	**(442,148)**	**(29.1%)**
Total	**26,359,837**	**29,345,498**	**(2,985,661)**	**(10.2%)**

The key item funding the Group's assets are liabilities due to non-financial sector clients. Liabilities due to corporate clients contracted by PLN 1,217.6 million or 10.3% YOY while due to individuals expanded by PLN 863.7 million or 15.8% YOY.

Within the liabilities due to financial sector category decreases were recorded, PLN 1,702.7 million or 51.1% on banks and other monetary financial institutions accounts and PLN 1,483.9 million or 32.4% on non-banking financial sector entities deposits.

Sources and uses of funds

PLN '000	31.12.2009	31.12.2008
Source of funds		
Funds of banks and other monetary financial institutions	2,474,630	4,594,886
Funds of customers and government units	23,885,207	24,750,612
Own funds with net income	6,199,389	5,625,809
Other external funds	5,073,837	7,579,038
Total source of funds	**37,633,063**	**42,550,345**
Use of funds		
Receivables from banks and other monetary financial institutions	3,477,729	3,017,739
Receivables from customers and government units	13,299,526	14,563,760
Securities, shares and other financial assets	13,768,385	18,767,880
Other uses of funds	7,087,423	6,200,966
Total use of funds	**37,633,063**	**42,550,345**

Equity and capital adequacy ratio

Compared to 2008 equity of the Group at the end of 2009 increased by PLN 669.6 million or 13.3%. Supplementary capital rose by PLN 516.9 million, which included allocation of net profit for 2008, and general risk reserve (PLN 75.0 million increase – allocation of net profit for 2008), as well as other capital funds (PLN 13.8 million increase) while revaluation reserve rose by PLN 63.1 million.

Equity*

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
Issued capital	522,638	522,638	-	0.0%
Share premium	3,030,546	3,029,703	843	0.0%
Supplementary capital	1,750,757	1,233,896	516,861	41.9%
Revaluation reserve	(81,026)	(144,110)	63,084	43.8%
General risk reserve	465,000	390,000	75,000	19.2%
Other equity	7,075	(6,752)	13,827	204.8%
Total equity	**5,694,990**	**5,025,375**	**669,615**	**13.3%**

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

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

The table below presents financial data needed for calculation of capital adequacy ratio based on the consolidated financial statements of the Group.

Capital adequacy ratio

	PLN '000	31.12.2009*	31.12.2008**
I	**Own funds for the calculation of capital adequacy ratio, including:**	**4,329,257**	**3,675,517**
	Less in core and supplementary funds		
	- interests in subordinated financial entities	56,895	56,469
	- intangible assets, including:	1,282,574	1,283,326
	goodwill	*1,245,976*	*1,245,976*
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**17,536,963**	**19,867,900**
III	**Total capital requirements, of which:**	**2,072,351**	**2,435,448**
	- credit risk capital requirements (II*8%)	1,402,957	1,589,432
	- counterparty risk capital requirements	131,142	272,222
	- excess concentration and large exposures risks capital requirements	54,387	82,835
	- total market risk capital requirements	106,772	132,313
	- operational risk capital requirements	345,885	347,112
	- other capital requirements	31,208	11,534
	Capital adequacy ratio (I/III*12.5)	**16.71%**	**12.07%**

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

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

As at 31 December 2009 the Group's capital adequacy ratio stood at 16.71%, up 4.64 percentage points YOY. This resulted mainly from an increase of the Group's own funds by PLN 653.7 million which was primarily a consequence of whole net profit for 2008 allocation to this purpose, as well as a decline of total capital requirement (primarily lower requirement to cover credit risk and lower requirement to cover counterparty risk).

Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2009

Lending and other risk exposures

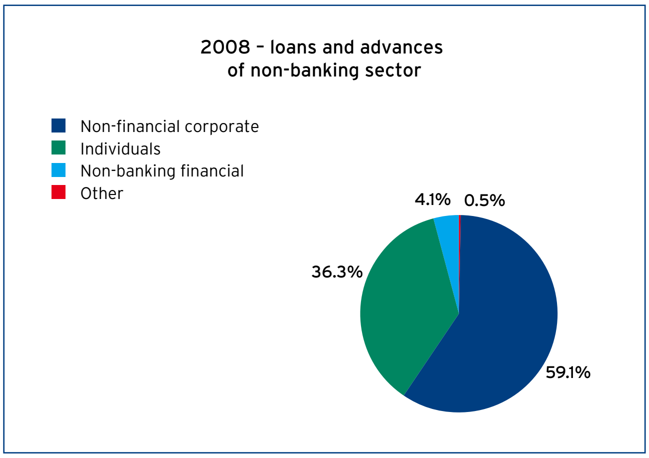
Lending

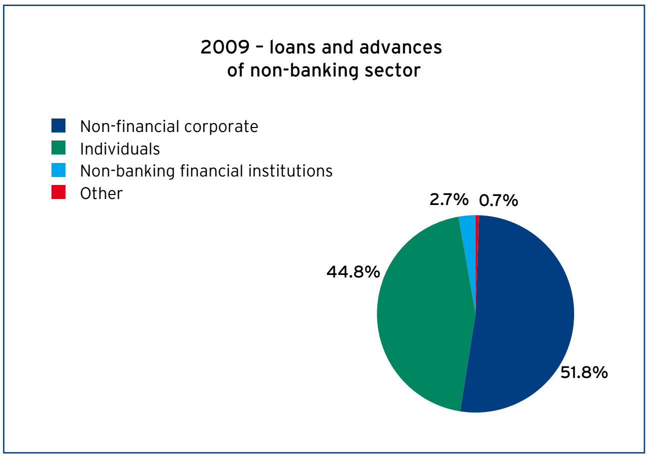
The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures untaken as needed. In the year 2009 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 2009 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	
	31.12.2009	31.12.2008	PLN '000	%
Loans in PLN	11,891,744	13,345,705	(1,453,961)	(10.9%)
Loans in foreign currency	1,887,942	2,581,936	(693,994)	(26.9%)
Total	**13,779,686**	**15,927,641**	**(2,147,955)**	**(13.5%)**
Loans to non-financial sector	13,327,180	15,201,549	(1,874,369)	(12.3%)
Loans to financial sector	365,559	654,495	(288,936)	(44.1%)
Loans to public sector	86,947	71,597	15,350	21.4%
Total	**13,779,686**	**15,927,641**	**(2,147,955)**	**(13.5%)**
Non-financial corporates	7,143,748	9,416,460	(2,272,712)	(24.1%)
Individuals	6,177,923	5,774,318	403,605	7.0%
Non-bank financial entities	365,559	654,495	(288,936)	(44.1%)
Public entities	86,947	71,597	15,350	21.4%
Other non-financial receivables	5,509	10,771	(5,262)	(48.9%)
Total	**13,779,686**	**15,927,641**	**(2,147,955)**	**(13.5%)**

As at 31 December 2009 gross credit exposure to the non-bank customers sector amounted to PLN 13,779.7 million, representing an decrease of 13.5% compared to 31 December 2008. The largest part of that credit portfolio, being loans to non-financial corporates (51.8%), decreased by 24.1% in 2009. Loans to individuals grew in comparison with the end of 2008 by 7.0% to PLN 6,177.9 million. Their share in total gross loan receivables increased by 8.6 p.p. The growth of the loans to individual's portfolio came from development of the offer addressed to retail customers and intensified promotional and sales activity.





As at the end of December 2009 the currency structure of loans outstanding changed slightly as compared with the end of 2008. The share of foreign currency loans, which in December 2008 stood at 16,2%, fell to 13,7% by December 2009. 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 2009 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	31.12.2009			31.12.2008		
	Balance sheet outstanding*	Off-balance sheet outstanding	Total outstanding	Balance sheet outstanding*	Off-Balance sheet outstanding	Total outstanding
GROUP 1	70,536	657,004	727,539	187,916	311,341	499,257
GROUP 2	284,984	351,906	636,890	344,592	408,274	752,866
GROUP 3	251,321	312,657	563,978	267,359	179,323	446,682
GROUP 4	252,989	226,951	479,940	245,000	5,000	250,000
CLIENT 5	7,512	469,583	477,095	135,195	327,636	462,831
CLIENT 6	1	319,519	319,520	6	312,102	312,108
GROUP 7	211,117	102,983	314,100	86,728	235,094	321,822
GROUP 8	4	275,972	275,976	113,757	188,303	302,060
GROUP 9	116,575	139,182	255,757	111,534	164,381	275,915
GROUP 10	9,905	244,626	254,531	238,175	38,605	276,780
Total 10	**1,204,943**	**3,100,383**	**4,305,326**	**1,730,262**	**2,170,059**	**3,900,321**

** 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.

Loans to non-banking sector, gross (reverse repo transactions included)

PLN '000	31.12.2009	31.12.2008	Change	
			PLN '000	%
Not at risk of impairment	12,502,809	14,082,832	(1,580,023)	(11.2%)
including Non-finacial sector				
corporate customers	*5,637,988*	*7,977,384*	*(2,339,396)*	*(29.3%)*
individual customers	*5,540,852*	*5,429,682*	*111,170*	*2.0%*
At risk of impairment	2,120,333	1,927,552	192,781	10.0%
including Non-finacial sector				
corporate customers	*1,460,258*	*1,504,747*	*(44,489)*	*(3.0%)*
individual customers	*637,658*	*347,430*	*290,228*	*83.5%*
Dues related to matured derivative transactions	137,373	14,127	123,246	872.4%
Total	**14,760,515**	**16,024,511**	**(1,263,996)**	**(7.9%)**
Impairment, including:	1,460,989	1,460,752	237	0.0%
Dues related to matured derivative transactions	106,360	2,197	104,163	4741.1%
Loans and advances to non-banking sector, net	**13,299,526**	**14,563,759**	**(1,264,233)**	**(8.7%)**
Provision coverage ratio	**64%**	**76%**		

Division into performing loans and non-peforming loans was presented below. Despite the growth of loans at risk of impairment by PLN 192.8 million or 10.0% YOY, amount of non-performing loans decreased by PLN 196.6 million or 10.2%.

Loans to non-banking sector gross, in division to performing vs. non-performing (reverse repo transactions included)

PLN '000	31.12.2009	31.12.2008	Change	
			PLN '000	%
Performing loans	12,892,154	14,082,832	(1,190,678)	(8.5%)
including non-financial sector				
corporate customers	*5,950,278*	*7,977,384*	*(2,027,106)*	*(25.4%)*
individual customers	*5,617,907*	*5,429,682*	*188,225*	*3.5%*
Non-performing loans	1,730,988	1,927,552	(196,564)	(10.2%)
including non-financial sector				
corporate customers	*1,147,968*	*1,504,747*	*(356,779)*	*(23.7%)*
individual customers	*560,603*	*347,430*	*213,173*	*61.4%*
Dues related to matured derivative transactions	137,373	14,127	123,246	872.4%
Total	**14,760,515**	**16,024,511**	**(1,263,996)**	**(7.9%)**
Non-performing loans ratio (NPL)	**11.8%**	**12.0%**		

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 non-reported losses.

As at 31 December 2009 the impairment of the portfolio was PLN 1,461.0 million, which represented slight increase from PLN 1,460.8 million as at the end of December 2008. PLN 158.4 million or 40.7% increase was recorded on portfolio accounted for collectively as well as PLN 71.3 million or 100.8% increase was recorded on incurred but not reported losses (IBNR). The highest decrease in impairment losses, of PLN 229.5 million, occurred in the portfolio accounted for individually, which represented a 22,9% decrease compared to December 2008. The provision coverage index grew from 9,2% in December 2008 to 10,6% in December 2009, as a result of decrease in loan receivables by nearly PLN 2.1 billion over the same period.

Impairment of the non-bank loan portfolio

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	141,982	70,701	71,281	100.8%
Impairment of receivables	1,319,007	1,390,051	(71,044)	(5.1%)
accounted for individually	771,034	1,000,523	(229,489)	(22.9%)
accounted for collectively, on a portfolio basis	547,973	389,528	158,445	40.7%
Total impairment	**1,460,989**	**1,460,752**	**237**	**0.0%**
Total provision coverage index	10.6%	9.2%		

Off-balance sheet exposures

As at 31 December 2009 off-balance sheet exposures of the Group amounted to PLN 13,767.4 million, representing an increase of 1.8% as compared with 31 December 2008. The largest change related to committed loans (PLN 479.0 or 4.4% million increase). Committed loans with the largest share (83.0%) in off-balance sheet exposures, represent committed, but currently unutilised credit lines and current account overdraft facilities.

Off-balance sheet exposures

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
Guarantees	1,902,396	2,349,068	(446,672)	(19.0%)
Letters of credit issued	128,453	188,228	(59,775)	(31.8%)
Third-party confirmed letters of credit	8,023	10,141	(2,118)	(20.9%)
Committed loans	11,428,560	10,949,511	479,049	4.4%
Underwriting	300,000	29,500	270,500	916.9%
Total	**13,767,432**	**13,526,448**	**240,984**	**1.8%**
Provisions for off-balance sheet liabilities	37,427	8,520	28,906	339.3%
Provision coverage index	0.27%	0.06%		

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

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

External funding

As at 31 December 2009 overall external funds held by the Group reached PLN 26,359.8 million, which was PLN 2,985.7 million or 10.2% lower than at the end of the year 2008.

External funding

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
Due to financial sector	**4,735,260**	**7,922,260**	**(3,187,000)**	**(40.2%)**
Funds on current accounts, including:	2,240,998	2,089,692	151,306	7.2%
- funds on current accounts of banks and other monetary financial institutions	*1,474,356*	*1,212,394*	*261,962*	*21.6%*
Deposits, including:	2,490,436	5,828,349	(3,337,913)	(57.3%)
- deposits of banks and other monetary financial institutions	*157,871*	*2,122,493*	*(1,964,622)*	*(92.6%)*
Accrued interest	3,826	4,219	(393)	(9.3%)
Due to non-financial sector	**20,571,958**	**19,935,072**	**636,886**	**3.2%**
Funds on current accounts, including:	10,611,554	7,476,940	3,134,614	41.9%
- corporate clients	*3,523,963*	*3,336,662*	*187,301*	*5.6%*
- individuals	*4,545,352*	*3,181,256*	*1,364,096*	*42.9%*
- budgetary units	*1,957,517*	*611,357*	*1,346,160*	*220.2%*
Deposits, including:	9,939,696	12,431,216	(2,491,520)	(20.0%)
- corporate clients	*7,052,771*	*8,457,649*	*(1,404,878)*	*(16.6%)*
- individuals	*1,790,952*	*2,291,343*	*(500,391)*	*(21.8%)*
- budgetary units	*690,391*	*1,171,453*	*(481,062)*	*(41.1%)*
Accrued interest	20,708	26,916	(6,208)	(23.1%)
Other liabilities	**1,052,619**	**1,488,166**	**(435,547)**	**(29.3%)**
Loans received	828,585	1,253,420	(424,835)	(33.9%)
Other liabilities	221,452	229,928	(8,476)	(3.7%)
Accrued interest	2,582	4,818	(2,236)	(46.4%)
Total external funding	**26,359,837**	**29,345,498**	**(2,985,661)**	**(10.2%)**

Within the liabilities towards financial sector category the largest change involved contraction by PLN 1,964.6 million or 92.6% in funds on banks deposits.
Within the liabilities towards non-financial sector category the most significant decrease occurred in term deposits of corporate clients: of PLN 1,404.9 million or 16.6%, whereas funds on current accounts rose, the most significantly of individuals by PLN 1 364.1 million or 42.9%.

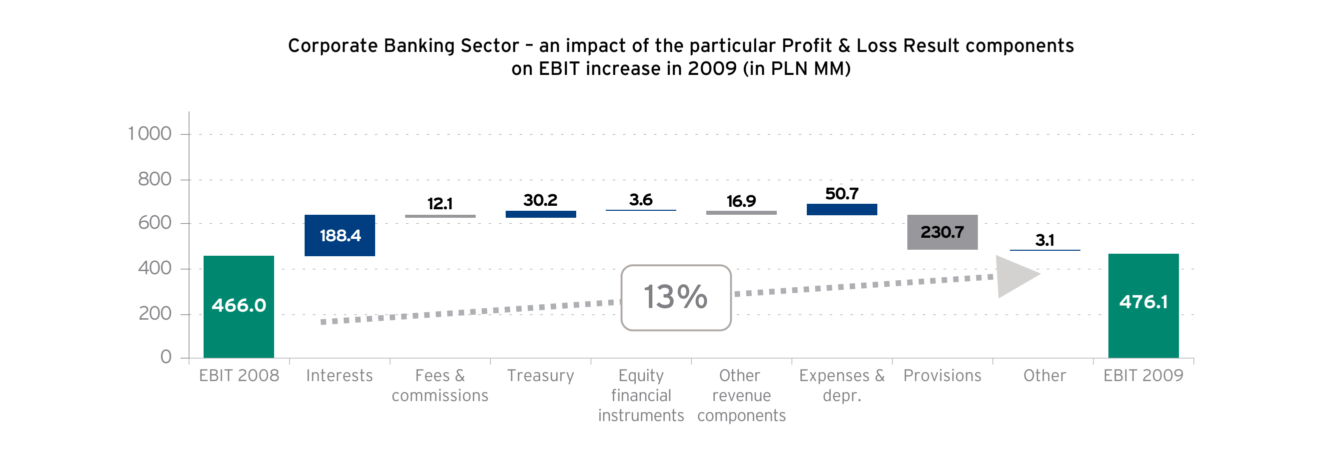
Liabilities to non-bank customers and clients

PLN '000	As at		Change	
	31.12.2009	31.12.2008	PLN '000	%
Liabilities towards:				
Individuals	6,390,760	5,528,996	861,764	15.6%
Non-financial economic entities	11,302,507	12,298,482	(995,975)	(8.1%)
Non-profit institutions	359,135	451,278	(92,143)	(20.4%)
Non-bank financial institutions	3,088,258	4,581,503	(1,493,245)	(32.6%)
Public sector	2,649,390	1,784,515	864,874	48.5%
Other liabilities	70,627	73,070	(2,443)	(3.3%)
Total	**23,860,676**	**24,717,844**	**(857,168)**	**(3.5%)**
PLN	19,858,350	20,575,953	(717,604)	(3.5%)
Foreign currency	4,002,326	4,141,891	(139,564)	(3.4%)
Total	**23,860,676**	**24,717,844**	**(857,168)**	**(3.5%)**

Corporate and Investment Banking

Summary segmental results

In the segmental results in other operating income position corrections to tax settlements of value added tax for the previous years have not been included.



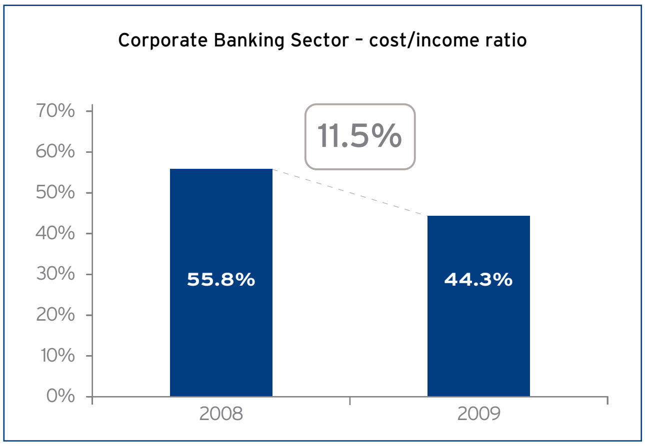
In 2009 gross profit of the Commercial Bank slightly increased in YOY terms, the key positive factors of which included:

- PLN 188.4 million net interest income growth, primarily resulting from an increase in income on debt securities (mainly on AFS portfolio), which was driven by higher portfolio of securities and decrease of nonfinancial deposits cost (primarily corporate), which was driven by decline of interest rates and lower deposits balance;
- PLN 50.7 million expenses decrease primarily in depreciation, transactional costs and employee costs;
- PLN 30.2 million increase in treasury income, which includes PLN 20.7 million growth in net gains on investment debt securities and PLN 9.5 million increase in net gains on financial instruments held for trading and on revaluation.

The factors which had a negative impact on gross profit of the Commercial Bank in YOY terms included:

- Increase of impairment losses which amounted to PLN 294.3 million in 2009 – compared to PLN 63.6 million impairment losses in 2008 – was mainly a result of increased lending risk driven by general slowdown in the economy, worsening of market conditions and as a consequence financial losses of the Bank's clients (additional negative impact had FX options provisions)
- PLN 12.1 million decrease in net fees and commissions; due to lower income on custody and depositary services and on lower fees on payments and accounts;
- PLN 16.9 million decrease in net other operating income; among others the effect of additional one-off income in 2008 (about PLN 11 million).

The segment's overall cost-income efficiency was significantly improved. In the course of the year cost/income ratio decreased by 11.5 p.p.



Transaction services

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

In transaction handling services the Bank has pursued a strategy which incorporates the priorities of:

- high customer satisfaction
- innovation and
- continued efficiency gains

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

Transaction servicing

a) Cash management products

Deposits and current accounts

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

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

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

Bank's offer incorporates the following types deposits:

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

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

Reserved Account

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

b) Liquidity management products

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

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

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

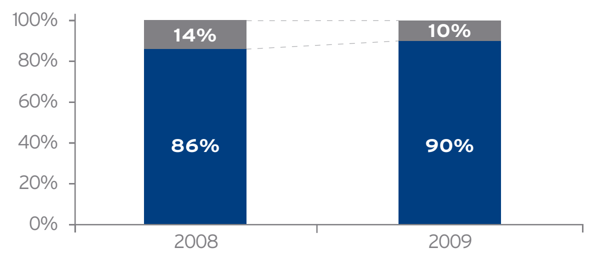
The list of clients using the Bank's liquidity management solutions includes over 50 group companies. In 2009 this list expanded further to include a number of capital groups.

c) Electronic banking

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

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

Monthly average share of e-statment



d) Payments and receivables

Unikasa

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

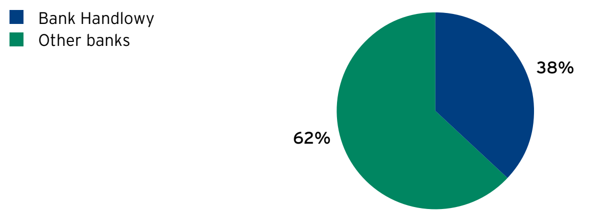
The moment of crucial importance to development of this product was the commencement in 2009 of co-operation with a new supplier of technological solutions. Collaboration with this new business partner allows the Bank to adjust its service to expectations of its clients in a flexible way and to build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

Direct Debit

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

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

Share in Direct Debit payments



SpeedCollect

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

Electronic Postal Cash Transfers

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

MicroPayments

In 2009 the Bank continued to strengthen its position of leadership in the market segment in which it offers the MicroPayments product. MicroPayments are used by institutions and entities which accept cash deposits from various payers and have the obligation of returning these together with accrued interest. Courts and prosecution administrations are the clients which use that product.

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

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

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

Loro Accounts

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

Foreign Bank Transfers

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

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

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

- Increasing competitiveness

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

- Increasing market transparency

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

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

  PSD also limits banks in their freedom to fix of the exchange value date and the date of by which funds are made available to the beneficiary's account on discretionary basis.

- Standardisation of rights and obligations

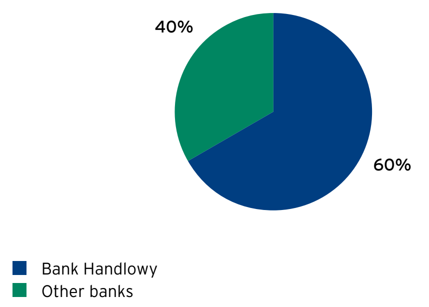
  PSD details the rights and obligations of the supplier of the payment services and the client in the process of rendering the payment services. These incorporate the principle of liability for default of a payment transaction.

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

e) Card products

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

Share in pre-paid cards market



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

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

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

f) Cash products

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

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

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

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

g) EU Office

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

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

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

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

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

Trade finance products

The Bank offers a wide range of trade finance products, the key one being its factoring product offer. In 2009 the Bank conducted a marketing campaign promoting factoring, with the promotional message of "Surf and Do Not Lose Liquidity". The campaign emphasised the benefits of factoring as a liquidity management tool. These are of particular significance in the face of credit market restrictions. The high cost of credit and its limited accessibility are the factors that enhance attractiveness of factoring as an alternative source of funding. The campaign also aimed to bring out the Bank's competitive advantage in the field of factoring:

- Debt financing of up to 100%;
- Simple handling procedures;
- Electronic data transmission;
- No requirement for turnover declaration.

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

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

In addition to the traditional solutions in this area, the Bank also executed superior quality structured trade finance services. The most noteworthy achievements which took place in that discrete field in 2009 included:

- combining factoring with distributor financing for one of world's largest fertiliser producers;
- combining factoring with distributor financing for one of world's largest auto makers;
- structured factoring transaction for one of Poland's largest fuel producers;
- financing of future accounts receivable for one of Poland's largest manufacturers of mining machinery.

In 2009 the Bank was active in conducting training sessions and meetings for its clients, which were aimed at elucidating various aspects of trade finance and servicing. The Bank organised:

- a conference for its global clients at which it presented its solutions within the field of loyalty programs for suppliers and distributors;
- Trade and Commerce Academy, a cycle of meetings with clients of the small and medium enterprise segment, which discussed the trade finance and servicing product offer;
- the Bank participated in the first CFO Forum organised by Cooper Conferences as a partner expert in the field of factoring.

Custody and depositary services

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

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

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

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

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

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

As at 31 December 2009 the Bank serviced 13,401 securities accounts.

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

At the same time, the Bank was the depositary for seven Open Pension Funds:

- AIG OFE
- Aviva OFE Aviva BZ WBK
- Generali OFE
- ING OFE
- OFE Pocztylion
- Pekao OFE
- Nordea OFE

and two Employee Pension Funds:

- Employee Pension Fund "Sunny Autumn",
- Employee Pension Fund of Telekomunikacja Polska S.A.

The Bank also acted as the depositary of 45 investment funds and sub-funds managed by the following Investment Fund Companies:

- BZ WBK AIB TFI S.A.
- PKO TFI S.A.
- OPERA TFI S.A.
- PIONEER PEKAO TFI S.A.
- LEGG MASON TFI S.A.
- AVIVA INVESTORS POLAND TFI S.A.

Treasury

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

Particularly noteworthy here is the fact of implementation of the

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

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

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

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

Commercial Bank

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

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

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

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

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

Assets

PLN m	31.12.2009	31.12.2008	Change	
			Amount	%
Total Commercial Bank	**7,148**	**9,773**	**(2,625)**	**(27%)**
Including:				
SMEs*	691	944	(253)	(27%)
MMEs*	938	1,405	(467)	(33%)
Public Sector	104	97	7	7%
Global Clients	2,332	3,682	(1,350)	(37%)
Strategic Clients	2,000	2,461	(461)	(19%)

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

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

Liabilities

PLN m	31.12.2009	31.12.2008	Change	
			Amount	%
Total Commercial Bank	**16,515**	**17,235**	**(720)**	**(4%)**
Including:				
SMEs	1,892	2,198	(306)	(14%)
MMEs	1,113	1,361	(248)	(18%)
Public Sector	2,989	2,053	936	46%
Global Clients	8,129	7,872	257	3%
Strategic Clients	2,272	3,705	(1,433)	(39%)

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

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

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

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

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

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

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

Key initiatives in the Middle Market Enterprises Segment (MMEs)

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

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

Key initiatives in the Global Clients Segment

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

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

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

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

Key initiatives in the Strategic Clients Segment

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

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

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

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

Brokerage

The Group offers brokerage services in the capital market through Dom Maklerski Banku Handlowego S.A. (DMBH), a wholly-owned subsidiary of the Bank.

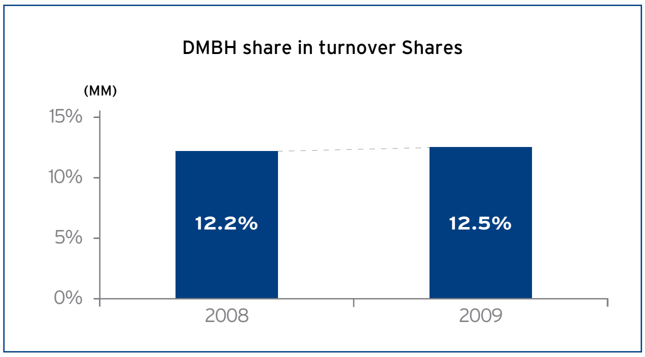
In 2009 DMBH ranked first in the market in terms of relative share (12.8%) in stock and block transactions market trading.

Value of share trades and volume of derivative trades of DMBH in 2009

	2009	2008	Percentage change	Market share in 2009	Market share in 2008
Shares* (PLN m)	41,757	39,101	6.79%	12.53%	12.19%
Futures and options ('000 of units)	547	571	(4.19%)	2.04%	2.34%
Number of investment accounts (units)	11,470	9,812	16.90%	-	-

**Block transactions excluded.*
Source: WSE, DMBH

In comparison to 2008, DMBH market share in stock trading on the secondary market increased to 12.5%



At the end of 2009 DMBH operated a total of 11,500 investment accounts.

The key factors contributing to financial result DMBH achieved in 2009 included: the ability to participate in trading of value equivalent to that of the previous year; and the ability to participate as an intermediary in transactions involving divestment of minority shareholdings by the State Treasury.

The new distribution channels of the securities brokerage services dedicated to retail customers (individuals) exhibited strong growth dynamics in 2009. The order acceptance points operating in the Bank processed in 2009 nearly 2,000 applications for execution of brokerage service agreements.

In 2009 substantial part of the investors we serve began taking advantage of internet access to their investment account, a channel we put into operation in the final quarter of 2008. By the end of the year 2009 we had executed over 800 brokerage agreement annexes enabling on-line access to the investment account. In November and December 2009 nearly ✥ths of the transaction orders placed with DMBH came via the internet channel.

At the end of 2009 DMBH acted as Market Maker for 34 companies, which represented 8.97% of all the stocks traded on WSE. Fall in the number of issuers DMBH serves as Market Maker was compensated by increased market activity of the companies remaining in our portfolio.

Additionally, the Proprietary Investments Unit performed the same function in respect of WIG20 index linked futures contracts and the MW20 index investment units. The issuers DMBH provided market making services to included foreign companies, with parallel listings on their home markets. At the end of the period, MOL and ORCO Property Group were the two entities that fell into that category.

The Retail Customer Office of DMBH also executes off-market transactions. Value of the private market equity transactions in 2009 reached nearly PLN 500,000.

In 2009 DMBH organised the following capital market transactions:

1. **State Treasury, Vattenfall Aktiebolag** – in July 2009 DMBH executed an off-market private placements of minority shares stakes held by the State Treasury in Górnośląski Zakład Elektroenergetyczny S.A. and Vattenfall Heat Poland S.A. with Vattenfall Aktiebolag, with total transaction value of PLN 1,300 million. DMBH acted in the process as the exclusive broker.
2. **Municipality of Warsaw** – in July 2009 DMBH completed public issue of municipal bonds in an amount of PLN 572 million. DMBH acted as the co-offeror in the process.
3. **Legg Mason Closed Investment Concentrated Equities Fund** – in July 2009 DMBH completed the initial public offering of A-series investment certificates, in a amount of PLN 36 million. DMBH acted as the offeror in the process.

The above-mentioned transactions totalled together PLN 1,908 million.

Summary Income Statement and Balance Sheet*

Company	Headquarter	% of authorised capital held by the Bank	Balance sheet total as at 31.12.2009	Equity as at 31.12.2009	Net financial profit/loss for 2009
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	653,114	90,776	8,325

** pre-audit data*

Leasing

The Group operates its leasing business through Handlowy-Leasing Sp. z o.o. ("Handlowy Leasing", "HL"), a wholly-owned subsidiary of the Bank.

Value of the new business leasing agreements executed in 2009 reached PLN 246.7 million. Compared to PLN 682.0 million of new agreements executed in 2008 this represents a decline of 63.8%.

Structure of the leased assets in 2009 was as follows:

- machinery and equipment dominated representing 66.7% of net value of leasing assets (NAV),
- heavy transport vehicles represented 33.3% of NAV.

Net asset value of leases

PLN m	2009	2008	Change	
			PLN mm	%
Value of leases contracted in the period	246.7	682.0	(435.3)	(63.8%)
- for vehicles	82.1	442.2	(360.1)	(81.4%)
- for machinery and equipment	164.6	239.8	(75.2)	(31.4%)

A number of factors has a significant impact on decline in NAV of leasing assets which occurred in 2009:

- general economic conditions expressing itself in economic downturn in every segment of the market;
- continued weakening of demand in the heavy transport vehicles market, which in the recent years had been the engine of the leasing business growth;
- clients cutting their capital expenditure budgets drastically; in response to uncertain economic prospects and increased cost of finance;
- the financial sector, including the leasing industry, registering increased credit risk.

As a result of the above-mentioned developments, the company did not meet its sales revenue targets.

In 2009 the company concentrated on the key task of fostering high quality of its credit portfolio, which it achieved as it: adjusted appropriately for the changing economic conditions in its risk assessment in respect of all the new transactions; and maintained strict discipline in management of its loan portfolio while consistently minimised cost associated with delinquent debt provisioning.

The company's current priorities include: serving the Bank's clients; and achievement of further improvements in brand recognition of Handlowy-Leasing among the Bank's clients. Seeking to increase interest in its leasing offer among the Bank's clients, Handlowy-Leasing has undertaken actions aimed at expanding its offer addressed specifically to that group of clients. There are also plans for joint Bank and leasing subsidiary marketing campaigns addressed to the Commercial Bank and the Consumer Bank clients and customers as well as the Global Clients and the Strategic Clients.

Summary Income Statement and Balance Sheet*

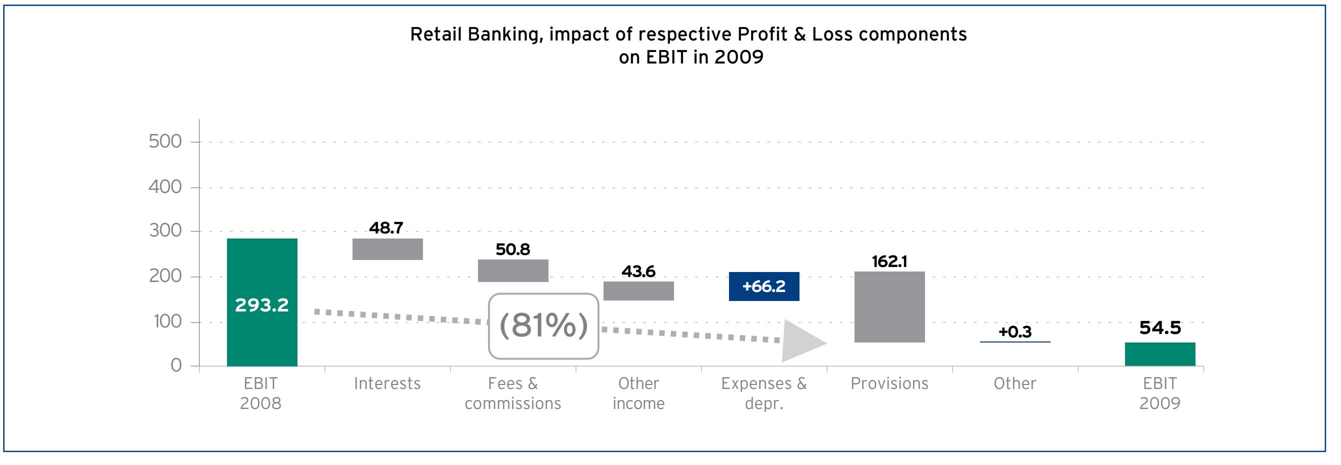
Company	Headquarter	% of authorised capital held by the Bank	Balance sheet total as at 31.12.2009	Equity as at 31.12.2009	Net financial profit/loss for 2009
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	1,166,127	158,667	(15,250)

** Pre-audit data.*

Retail banking

Summary segmental results

In the segmental results in other operating income position corrections to tax settlements of value added tax for the previous years have not been included.



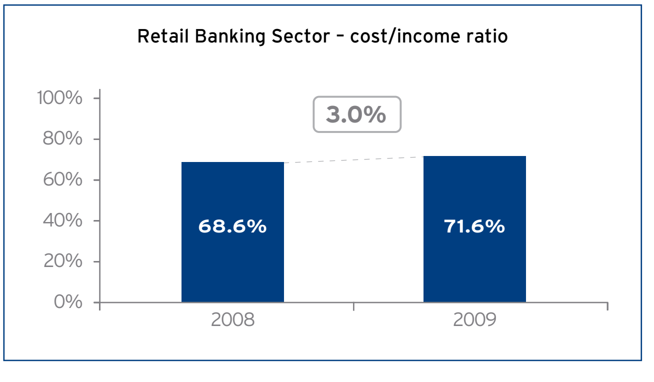
In 2009 the Consumer Bank recorded PLN 238.6 million or 81.4% YOY gross profit decrease. The key factors included:

The factors which had a negative impact on gross profit of the Consumer Bank in YOY terms included:

- Higher impairment loss charges (PLN 162.1 million YOY increase) – increase was driven by higher provisions on incurred but not reported losses (IBNR) as a result of market conditions worsening, growing loan and credit cards portfolios as well as the growing share of irregularly performing receivables;
- PLN 48.7 million or 6.1% decrease in interest income, primarily an effect of lower interest rates on credit cards and cash loans driven by NBP interest rates decrease and supervisory requirements concerning maximum interest rate on consumer loans;
- PLN 50.8 million or 14.1% YOY decline in net fees and commissions; primarily because of lower income realised on sale of investment and insurance products.

The factors which had a positive impact on gross profit of the Consumer Bank in YOY terms included:

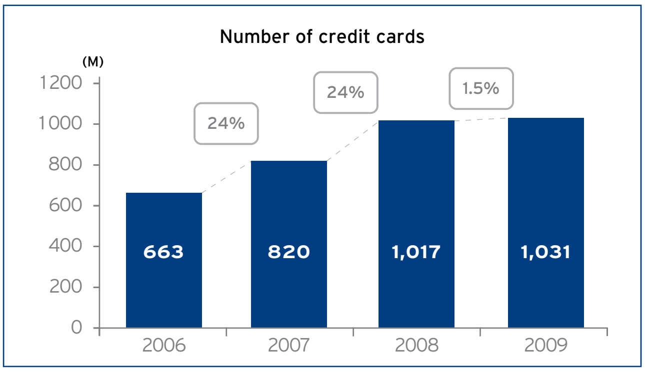
- PLN 66.2 million decrease in expenses was driven by rationalisation of marketing expenses, optimisation of the sale bonus system and optimisation and consolidation between corporate and retail branch network.



In 2009 the Consumer Bank recorded its overall cost and income efficiency worsening. In the course of the year Cost/ income ratio increased by 3.0 p.p.

Credit cards

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



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

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

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

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

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

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

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

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

Consumer Bank

Bank Accounts

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

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

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

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

Credit Products

Cash Loan

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

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

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

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

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

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

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

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

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

Credit Line

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

Mortgage Products

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

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

Investment and Insurance Products

a) Investment Products

Investment Funds

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

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

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

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

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

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

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

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

Structured Products

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

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

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

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

Securities Brokerage Services

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

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

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

b) Insurance Products

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

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

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

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

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

- life insurance policy for the customers with Credit Lines in their personal account. The insurance policy incorporates a guaranteed benefit payment in case of the holder's death or permanent work disability and pays down any outstanding Credit Line debt.

The insurance premium here is paid monthly and calculated on the amount of outstanding Credit Line debt; and

- the insurance package structured for employees of SMEs. This is a group insurance product, which employers can contract for the benefit of their employees.

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

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

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

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

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

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

Achievements of respective distribution channels

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

Branch network

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

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

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

The network optimisation project tasks implemented in 2009 included:

- expansion of retail deposit taking services in 21 former S type - currently M type outlets. This was achieve through implementation of new technological solutions. Installation of new equipment contributed, among others, to expansion of the basket of available currencies, increased operational efficiency and limitation of operational risk relating to handling of cash;
- consolidation of 24 branches, which previously operated mainly under the CitiFinancial brand. Actions here involved the transfer of these outlets' operations to existing multifunctional branches, which offer a complete range of products;
- transfer of the L type outlet in Opole at 3 1-go Maja street to a new location at 7/9 Koraszewskiego street;
- merger of outlets (L and S type) in Rzeszów at 3 Cieplińskiego street and transfer of their operations to a new L type branch in Rzeszów at 23 Rejtana street;
- transfer of the L type outlet in Bielsko Biała at 4 Pl. Ratuszowy to a new location at 22 Cechowa 22 street;
- reasons beyond the Bank's control led to closing of the M type outlet in Gdynia at 7 10-go Lutego street, with the customer/client services transferred to the other branches in Gdynia;
- closing of the M type outlet in Gdańsk at 12/14 Targ Drzewny street, with the customer/client services transferred to the other branches in Gdańsk;
- a decision to sell the property led to closing of the L type outlet in Oborniki Wielkopolskie at 64 Piłsudskiego street, with the customer/client services transferred to other branches in Poznań;
- closing of the M type outlet in Warsaw at 27 Mickiewicza street, with transfer of its operations to a new location at 10 Krasińskiego street;
- a decision to sell the property led to closing of the L type outlet in Lublin at 5 Kowalska street, which was merged with another L type outlet in Lublin at 55 Krakowskie Przedmieście street;
- closing of the M type outlet in Szczecin at 14 Wyzwolenia street, with transfer of its operations to a new location at 8 Pl. Rodła;
- pursuant to the strategy adopted by the Bank, the L type outlet in Warsaw at 9 Czerniowiecka street was closed, with the customer/client services transferred to an outlet at 11 Polna street in Warsaw;
- pursuant to the strategy adopted by the Bank, the L type outlet in Tarnów Podgórny at 103 Poznańska street, with the customer/client services transferred to branches in Poznań;
- pursuant to the strategy adopted by the Bank, co-operation with authorised sales outlets was terminated.

Number of branches at period end

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

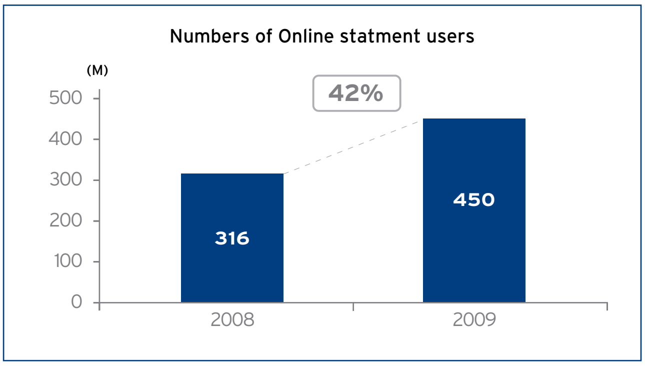
** Due to restructuring of the branch network, the available comparable data go back to 31 January 2009 only.*

Internet and telephone banking

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

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

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



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

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

Indirect and direct customer acquisition

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

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

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

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

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

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

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

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

Developments in IT

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

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

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

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

- automation of submission of FX transactions achieved through linking of the e-Dealer system with the Systematics system;
- implementation of solutions enabling servicing and issuance of EMV standard compliant credit and debit cards with embedded microchip;
- implementation of a system which facilitates tracking and prevention of transactions performed with stolen debit cards;
- mobile banking – enabling access to bank accounts via mobile devices;
- substantial expansion of the IT systems aimed at increasing productivity of the telephone sales and collection units;
- implementation of various expansions to the Java Financial Platform (JFP) internet platform, enabling, among others, wider offering to customers of the automated account balance notification service;
- enabling retail customers (as we did the corporates) to settle electronic banking transactions in the SEPA standard;
- launch of new module for processing bank transfers and implementation of automated verification of bank transfers booked by the Bank's main transaction system (FlexCube) against the watch list of entities under international economic and trade sanctions, which further automate and are expected to increase efficiency of transaction processing by the Regional Clearing Centre in Olsztyn;

- implementation of the new ESDK system (electronic message distribution system) within the Custody Services Office serving messaging with the National Depository for Securities (NDS);
- introduction of a series of process accelerating improvements in automated generation and distribution of bank statements to corporate clients;
- consolidation of the IT systems used by the retail and corporate banking divisions, which enabled introduction of uniform business processes sharpening risk management and reducing operation and maintenance costs;
- Aspect Autodialer – a complex multidimensional project involving delivery of a new Autodialer system to our retail banking;
- Autodialer – enabled access to all the available functionalities;
- implementation of the ACD system, which supports call service quality control through the regional Command Centre. The system enables the managers to monitor the call response service and is expected to effect systematic improvements in satisfaction of the Command Centre's internal customers by cutting down on call waiting and response times;
- technological upgrade and expansion of the capacity in the international WAN data transmission lines;
- replacement of the firewall infrastructure throughout Poland;
- implementation of NICE Perform, a new voice recording technology;
- efficient execution of the Business projects, among others: Autodialer, Mutual Funds via Phone, and Branch Network Optimization;
- reduction of the O&M costs of the Bank's telecommunication infrastructure while maintaining the high quality of its telecommunication services;
- consolidation of management of the branch level Avaya PBXs (among others, for the Traugutta, the Metropolitan and the Olsztyn/Pstrowskiego branches) through the Avaya ACM central system based in Warsaw;
- implementation and rollout in Poland of NICE Perform, a novel voice recording service technology, which enabled centralised recording of calls with the uses of the IPT technology;
- GTS project – ESDK Poland - upgrade of the link to NDS and upgrade of the ESDK system for clearing transactions with NDS.

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

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

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

Equity investments

All capital investments of the Bank are classified as part of either the strategic or the divestment exposures portfolios. In 2009 the Capital 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 transaction gains 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, e.g. Handlowy Inwestycje Sp. z o.o. Some of these holdings are restructured exposures, which originate from debt-to-equity swap transactions.

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

Other information about the Group

Rating

The Bank has a full rating of Moody's Investors Service (Moody's), an international rating agency. The following rating changes occurred in 2009:

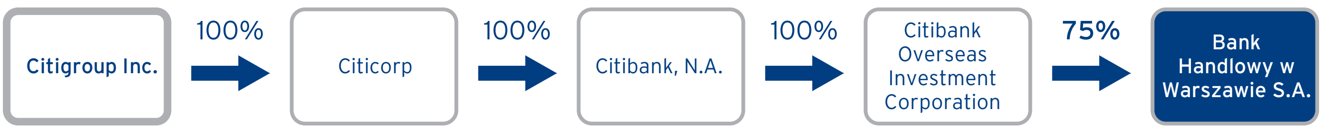
- On 20 January 2009 Moody's changed the rating outlook, previously stable, and placed it on the watch list, with a possibility of downgrading its ratings for the Bank's long term currency and Polish złoty deposits, and the Bank's financial strength. The Bank's ratings, being the assessment of its long- and short term liabilities and of its financial strength, remain unchanged (A2, P-1 and C- respectively). The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 16 January 2009;
- On 3 March 2009 Moody's reduced its rating for the Bank's long term deposits in Polish złoty and foreign currencies from A2 to A3 and retained the rating on the watch list, with the possibility of a downgrade. The ratings of short term deposits were reduced from P-1 to P-2. These decisions did not impact the Bank's financial strength rating (BFSR), which remained at C- as it was retained on the watch list, with the possibility of a downgrade. The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 27 February 2009;
- On 18 June 2009 Moody's reduced its rating for the Bank's financial strength (BFSR) from C- to D+ with negative outlook. The rating for the Bank's deposits in Polish złoty and foreign currencies was reduced from A3 to Baa1 with negative outlook. The ratings of short term deposits remained unchanged (P-2). The change in ratings described here was a consequence of deterioration of the market environment, primarily impacting the retail and corporate portfolios. At the same time Moody's indicated that Bank's capital position as net lender remained stable and that its solvency ratio was among the highest of the banks rated by Moody's.

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

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

Performance of the Bank's stock on the Warsaw Stock Exchange

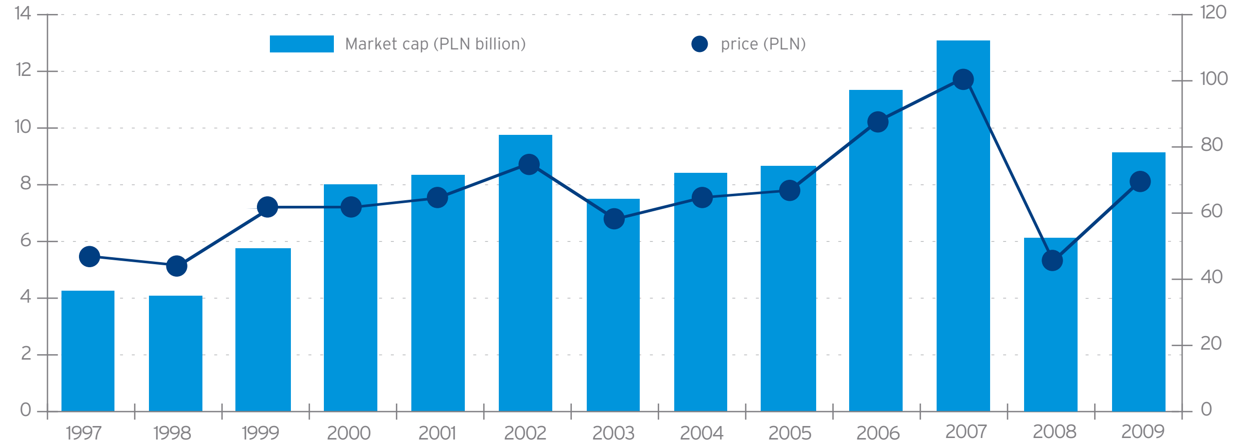
The only shareholder of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders Meeting (GSM) is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds the group's oversees investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2008 neither the number of shares held by COIC nor its participation in the share capital and votes at the GSM of the Bank changed, and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM. The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organisational structure of Citigroup:



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

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

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

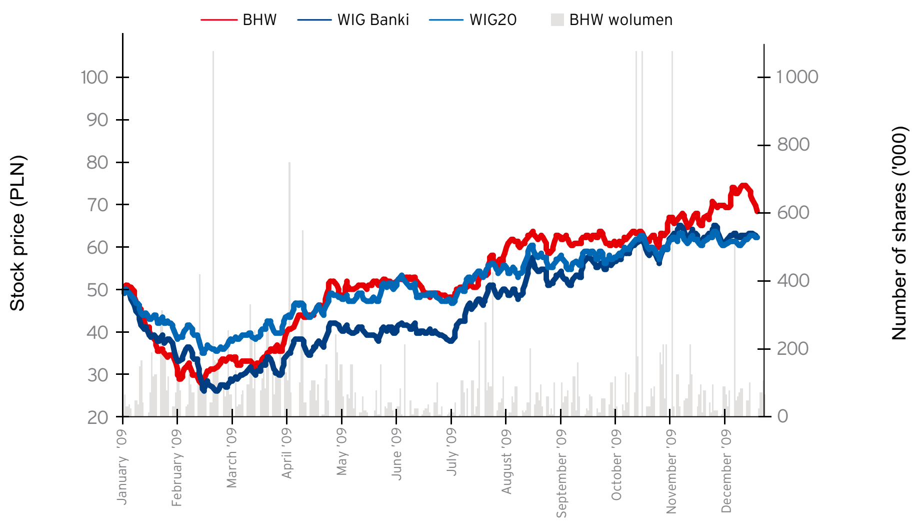


In 2009 Bank's share price on WSE rose by 40%, from PLN 50 (5 January 2009) to PLN 70 (31 December 2009).

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

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

BHW share price and trading volume against WIG-Banks and WiG20 market indices (05/01/2009=50)



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

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

Interest rates

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

As at 31 December 2009

in %	Commercial Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivable from financial and non-financial sector entities						
- fixed term	5.28	2.38	3.18	17.09	4.53	7.40
Debt securities	4.95	4.80	3.62	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	3.18	0.62	0.35	5.25	0.78	0.62

As at 31 December 2008

in %	Commercial Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivable from financial and non-financial sector entities						
- fixed term	7.24	4.63	3.11	19.17	4.14	7.40
Debt securities	5.57	4.08	5.49	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	5.53	2.95	1.87	7.39	3.78	2.93

Awards and honours

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

- The Bank was honoured with a honorary mention and the emblem of the Entrepreneur Friendly Bank in the 10th edition of a competition organised by the Polish Chamber of Commerce and the Polish-American Small Business Advisory Foundation;
- The Bank received twofold international certification of note: the ISO 27001 security certificate and the BS 25999 business continuity certificate. The respective Independent Auditors assessed our procedures as compliant with the highest international industry standards;
- The Bank participated in the RESPECT Index and was voted a member of the narrow circle of the 16 most socially responsible public companies in Poland. It was awarded the high A rating, as a company that pursues the highest business standards in all its operations. Introduced on WSE, the RESPECT Index singles out the companies for which responsible approach to business forms permanent part of their management approach. The RESPECT Index was developed through collaboration of the Forbes monthly with WSE and the Deloitte consultancy;
- The Bank came out at the top of the ranking of the best institutions providing cash management services: the Best Cash Management Bank. The title is awarded by the prestigious UK Euromoney magazine to financial institutions based on the votes of their clients. Once again the solutions the Bank offers its clients were recognised for their innovative approach, flexibility and uniqueness;
- The Bank was the top ranked entity within the Banking and Insurance category of the Responsible Companies Ranking published by Gazeta Prawna. The Bank achieved the highest scores in such areas as Basic Social Responsibility and Social Action;
- The Bank's investor relations team was recognised as on of the ten best such teams operating on WSE, as established through a ranking run by the Puls Biznesu daily and Pentor Research International, a research institute. Investor Relations was one of the categories in the Public Company of the Year ranking commissioned by Puls Biznesu;
- The Bank's offer addressed to the Small and Medium Enterprises received the Thornless Rose award; this based on a ranking prepared by the Economic Research Institute for the Home&Market monthly;
- The foundation was honoured with the Strong Through Image 2009 (Mocni Wizerunkiem) award granted for the strategic engagement in a DNA research project, which led to identification of the remains of Nicolaus Copernicus. The Strong Through Image title is granted annually by the Public Relations Congress to entities which actively support promotion of charity causes and social projects. In the current year the foundation was awarded this title for the second time.

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 2009 the Foundation focused its efforts primarily on such areas of interest as: economic and financial education, promotion of entrepreneurship and innovation, and coordination of the Bank's employee volunteer projects addressed to the socially disadvantaged as well as those aiming at preservation of cultural heritage.

Descriptions of the programs pursued in the period follow.

From a Grosz to a Złoty *(Od grosika do złotówki)* – the first Polish financial education programme for pupils of primary schools executed in the context of integrated learning in collaboration with the Foundation of Entrepreneurship of Young People. It is being run jointly by teachers and volunteers from the Bank with collaboration of the parents. The programme is intended to help children develop habits of saving money, developing their awareness of the value of work, learning what money can be used for and preparing children for the task of rational shopping decisions. The program is comprised of two parts: the second form primary school children are involved in a week-long educational module, which takes the form of a journey through the Finance Galaxy, while the third form primary school children are involved in a day-long workshop devoted to the topic of saving, which is entitled Grosz Journeys. In the course of the school year of 2009-2010 the program engaged 450 teachers and approximately 17,000 parents who opened up the world of finances before 11,340 pupils of 208 schools.
The Grosz Journeys workshops were run in the context of Citi's Global Community Day 2009 and involved 1,488 pupils and 1,310 parents. We also held two school art competitions, with saving and operation of a bank as their respective themes; over 700 pupils participated.

My Finances (Moje Finanse) – the largest Polish economic education programme addressed to pupils of higher secondary level schools conducted in cooperation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People. Since November 2007 the programme commenced its second edition, with the educational curriculum expanded to also include the parents.
In 2009 the program was refreshed, its original three modules of Come to Like Banks, My Investments and Investment Into the Future updated and adjusted to reflect the latest issues; and two additional modules added: Safe Finances and The World of Finance. In the fourth quarter of 2009 we conducted 80 workshops preparing teachers for execution of the Safe Finances module. 1,650 educators took part in them. We also conducted the second edition of the Becoming an Investor workshops for pupils, which involved 15 economics students on pilot basis. Each of these students conducted the workshops with pupils of six forms in the schools running the My Finances program in the Łódź region and Silesia. 2,700 pupils took part in that series of workshops. In the school year of 2009-2010 the program involved 156,992 pupils, or 8,492 more than the expected 148,500. This testifies of: attractiveness of the program, both for the pupils and the teachers; the conviction that is needed; and the desire for acquisition of financial knowledge, particularly at the time of an economic downturn.

Banks in Action (Banki w Akcji) – an economic education program addressed to higher secondary school students interested in a financial sector career. The program aims to promote among this student group knowledge of the principles of functioning of financial markets, and particularly of commercial banks. Implemented by the Leopold Kronenberg Foundation and the Foundation of Entrepreneurship of Young People, the program proceeded with the following modules in 2009:

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

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

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

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

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

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

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

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

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

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

Cultural patronage

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

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

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

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

Special purpose investment vehicle companies

In 2009 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 operations of this type, the investment companies are going to be successively divested or liquidated. As per the data available at the date of preparation of the financial statements (interim, unaudited), summary financial data of these entities, as at 31 December 2009, were as follows:

Company	Head Office	% of authorised capital held by the Bank	Total assets as at 31.12.2009	Equity as at 31.12.2009	Net profit/ loss for 2009
		%	PLN '000	PLN '000	PLN '000
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	16,824	12,089	371
Handlowy Investments S.A.	Luxembourg	100.00	29,230	28,991	1,588
Handlowy Investments II S.a.r.l	Luxembourg	100.00	7,138	6,927	104

Significant risk factors relating to the Group's operations

Major risk factors and threats to the Group's operating environment

Economy

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

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

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

Regulatory risk

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

The most relevant of these regulations include and cover:

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

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

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

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

Competition within the banking sector

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

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

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

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 a large portfolio of liquid securities, 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 (revaluation mismatch gap risk), and the sensitivity of the value of debt securities and of interest rate based derivative instruments to changes in the market rates (pricing risk). In respect of the revaluation mismatch gap risk, interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates.

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

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 Bank defines operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operating risk includes the risk relating to business practices and legal risk, in other words, the risk of non-compliance with the effective regulations of law and internal regulations of the Bank. Operating risk does not include the reputational risk, the strategic risk or the risk of potential losses arising from decisions relating to undertaking the credit risk, the market of potential, the liquidity risk or the insurance and underwriting activity risk.
The processes of risk identification, self-assessment and reporting, in all of their general aspects, have been brought into uniformity and generally adopted by all of the Bank's organisational units. The processes of risk limiting, monitoring and measurement are specified for each organisational unit, which can differ in those terms.

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

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 such liquidity and capital adequacy as ensure security of our customers and retention of their trust.

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

Corporate and Commercial Bank

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

The Bank's market share in corporate loans stood at 2.6% at the end of 2009 while its market share in corporate deposits was 6.3%.

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

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

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

Brokerage

Market share of DMBH in total equity value traded over WSE in 2009 rose to 12.5% compared to 12.2% a year earlier; as a result, DMBH ranks first in the market this year's league table.

Development of the securities brokerage business depends to a great extent on the growth dynamics prevailing on the Polish capital market, which can be quite volatile, because of the global macroeconomic uncertainties.

Corporate clients continue as the dominant customer group of DMBH in terms of their contribution of its revenue. DMBH is working toward the target of maintaining its market share in that segment.

Also, of potential importance is the fact that the anticipated high value public offerings in this market (among others PZU, Polkomtel, Tauron) are capable of attracting international investors, who – in addition to the domestic financial institutions – have been the one of the largest customers groups DMBH has served.

DMBH expects that the growth in fee income generated by retail customers which occurred in the fourth quarter of 2009 will be maintained or possibly even accelerate in 2010.

Consumer Bank

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

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

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

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

Distribution network

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

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

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

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

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

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

The Bank continually undertakes actions aimed at improving transparency in its organisation, its division of powers and functioning of its respective governing bodies, and their mutual relations. These include the following:
The Bank has published its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005;
One half of the Bank Supervisory Board should be composed of independent members, including the Chairman of the Board;
Within the Bank Supervisory Board functions the Audit Committee composed of two independent members, including the independent Chairman of the Committee;
Remuneration of all the Management Board members is commensurate with the company size and reflects the individuals' scope of duties and accountability;

All significant internal regulations as well as information and documents relating to the Company General Meetings are available at the Company's headquarters and via its website.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant shareholdings

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

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

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

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

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

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

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

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

14) approves the principles governing the Company's capital management;

15) approves the employment structure;

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

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

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

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

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

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

President of the Management Board:

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

2) convenes and chairs meetings of the Management Board;

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

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

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

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

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

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

Amendments to the Articles of Association

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

1) the Bank's name;

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

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

4) the principles governing the internal control system;

5) equity and financial management principles;

6) share privilege or restrictions with respect to the voting right.

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

General Meeting procedure

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

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

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

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

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

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

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

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

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

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

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

General Meetings may be attended by the media.

Fundamental powers of the General Meeting

The General Meeting should be convened to:

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

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

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

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

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

5) special funds;

6) other purposes.

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

Shareholders' rights and their exercise method

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management Board

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

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

Sławomir S. Sikora – President of the Management Board;

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

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

Witold Zieliński – Vice-President of the Management Board;

Iwona Dudzińska – Member of the Management Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

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

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

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

Audit Committee

The Audit Committee is composed of:

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

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

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

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

The Audit Committee should consist of at least two independent members, one of whom performs the function of the Committee Chairman. At least one member of the Committee should meet the independence requirements referred to in Article 56, clause 3, point 1, 3, 5 of the Act on auditors, their self-government and the entities authorized to audit financial statements and public supervision, as well as hold qualifications within the field of accounting or financial auditing.

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

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

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

At least on an annual basis the Audit Committee meets:

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

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

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

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

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

Chairman or Deputy Chairman may participate in the meeting or its relevant part.

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

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

Remuneration Committee

The Remuneration Committee is composed of:

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

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

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

The competences of the Remuneration Committee include:

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

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

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

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

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

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

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

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

Risk and Capital Committee

The Risk and Capital Committee is composed of:

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

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

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

The Committee consists of at least four members of the Supervisory Board, one of whom performs the function of the Committee's Chairman. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.
Committee meetings are convened by the Committee Chairman on their own initiative or upon the motion of a Committee member. Should the Committee Chairman be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Deputy Chairman. Meetings are also convened upon the motion of a Committee member or Chairman of the Supervisory Board.
Meetings of the Committee are held at least on a semi-annual basis at dates determined by the Committee Chairman upon consultation with the Deputy Chairman of the Committee.
Notice of the meeting, including the agenda and materials subject to discussion are distributed to members of the Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). The notice should include the agenda as well as materials related to the matters discussed at the meeting. The agenda of the Committee includes standing items as well as issues considered upon motion. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.
All members of the Committee are obliged to participate in its meetings.
The Committee has the right to consult advisors and invite the Bank's employees or other parties to its meetings with the objective to discuss or examine the issues considered by the Committee.
Parties invited by the Committee Chairman or Deputy Chairman may participate in the meeting or its relevant part.
Committee meetings are chaired by the Chairman of the Committee. In the event of the Chairman's absence, the meetings are chaired by the Deputy Chairman.
Resolutions of the Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting. Upon consultation with the Deputy Chairman of the Committee, the Chairman may decide on considering a matter by circulation (in writing).
Minutes are taken from the Committee meetings.

The Code of Best Practise in Dom Maklerski Banku Handlowego S.A. and Handlowy Leasing Spółka z o.o., the Bank's Capital Group companies

Dom Maklerski Banku Handlowego S.A. (DMBH) and Handlowy Leasing Spółka z o.o. (HL) are not public companies and therefore they are not obliged to comply with the Code of Best Practise for the Warsaw Stock Exchange Listed Companies or submit declarations in this respect. However, due to an important role of these entities in the Capital Group, the following circumstances should be noted.

DMBH as a member of the Chamber of Brokerage Houses shall be obliged to comply with the Code of Best Practice of Brokerage Houses developed by the Chamber of Brokerage Houses. The Code does not regulate the issue of corporate governance and mainly addresses the principles of professional secret protection, relations with clients, practices of the brokerage house's employees including relations with other brokerage houses. DMBH acts in accordance with the Act on Trading in Financial Instruments and therefore, in addition to the provisions of the Code of Commercial Companies, it complies with some elements of the corporate governance as resulting from the Act and relevant executive provisions. Among others, pursuant to Article 103 of the above Act, the Management Board should consist of at least two persons that hold an university degree, have at least three-year working experience in a financial institution and good references with respect to their previous functions. DMBH shall inform the Financial Supervisory Authority of any changes in the composition of the Management Board. Also, DMBH is obliged to submit reports to the Financial Supervision Authority (including the changes in a composition of the Management Board or contents of specific General Meeting's resolutions). The Act on Trading in Financial Instruments provides some regulations with respect to purchase of the brokerage house's shares, stating that the headquarters of the brokerage house must be within the territory of the Republic of Poland.

Spółka Handlowy Leasing Spółka z o.o. (HL) is a leasing company. The leasing industry with the Polish Leasing Association at the top is in the process of developing a Code of Leasing Companies Best Practise.

HL pursues its activities in accordance with the Code of Commercial Companies. In spite of the fact that the Code does not require an appointment of any supervisory body, HL established a Supervisory Board in order to provide a continuous supervision over the company's activities.

Bank's Authorities and other 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 2009 is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration paid and payable in respect of the years 2009 and 2008 to the persons managing subsidiaries of the Bank amounted to PLN 4,922,000 and PLN 3,859,000 respectively.

The persons supervising subsidiaries of the Bank did not receive any remuneration in either 2009 or 2008.

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

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

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

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

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

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

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

Corporate governance rules

The corporate governance rules are presented in a note to the Bank's Financial Statements. These have not undergone any change in the year 2009.

Agreements concluded with registered audit company

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

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

PLN '000	Applicable to year	
	2009	2008
Bank or the parent company audit fees (1)	607	607
Bank or the parent company review fees (2)	300	300
Subsidiary companies audit fees (3)	345	355
Other assurance fees (4)	125	125
	1,377	**1,387**

(1) The contract fees for the audit include fees paid or payable to KPMG for audit of the annual stand-alone financial statements of the Bank and the annual consolidated financial statements of its Capital Group (the agreement relating to the year 2009 signed on 30 November 2009).
(2) The contract fees for the review include fees paid or payable to KPMG for review of half-year stand-alone and consolidated financial statements of the Bank and its Capital Group (the agreement relating to the year 2009 signed on 17 June 2009).
(3) The contract fees for the audit include fees paid or payable to KPMG for their professional services relating to audits of financial statements of the relevant Group subsidiaries.
(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 company and its subsidiaries; not mentioned in points (1), (2) or (3) above.

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

Signatures of all Management Board Members

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