

**Letter from the President of the Management Board  
to the Annual Report of Bank Handlowy w Warszawie S.A.**

Ladies and Gentlemen,

I have the honor to place in your hands the Annual Report of Bank Handlowy w Warszawie S.A. for the year 2009. Given the situation on global financial markets, it was indisputably a year full of challenges. Our consistent and well-executed strategy helped the Bank not only safely go through the difficult period of the economic turbulence but also to obtain an advantageous position to become a beneficiary of expected economic growth!

Throughout the year 2009 the financial markets remained volatile, as a result of the global credit crunch. During the first two quarters, an economic slowdown was reported in Poland. The key contributors to this economic downturn included the declining rate of investment, the sluggish private consumption and the deep adjustments in inventory levels. Additionally, the retreat of international investors from emerging markets combined with the downturn in the Polish economy contributed to clear weakening of the zloty. In the year 2009 Polish banking market sector remained under strong influence of unfavourable macroeconomic conditions. 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. The previous year brought about clear improvement in the sentiment prevailing in the equities market, which was reflected by some impressive growth stories in all of major indices of the Warsaw Stock Exchange.

In 2009 the Bank's net profit reached PLN 525.2 million. In the same period, the consolidated operating revenues rose by PLN 127.0 YOY, amounting in total to PLN 2 521.2 million. The net result was negatively influenced by higher costs of lending risk which rose by PLN 363.9 million as compared to the previous year. The operating costs of the Bank, general management and depreciation fell by 7.9%. In 2009 the Bank reported significant improvement of cost-income efficiency with the cost/income ratio lower by 7.6 p.p. than in 2008.

One of our highest management priorities in 2009 was to ensure safety of the investments of our corporate as well as individual customers. This approach was reflected by the fact that Citi Handlowy has a stable capital base and one of the best liquidity ratios in the market. The loans to deposits ratio as at the end of 2009 amounted to 53%. Despite a difficult market situation, Citi Handlowy as one of only few banks in Poland ended the last year with profit (net PLN 525.2 million). As for the revenues from the Bank's operating activity, these were by PLN 127.0 million higher (i.e. by 5.3%) as compared to 2008. This is unquestionably good information for our customers and shareholders. The above results were achieved mainly thanks to the ability of adjusting quickly to the dynamic economic situation in Poland and abroad – the Bank's rather conservative approach to new lending, monitoring and professional risk management policy, as well as cost discipline policy. I believe that such solid foundations will enable Citi Handlowy to become a beneficiary of the expected economic improvement.

In 2009, Citi Handlowy strengthened its position of a market leader among depositary banks in Poland. It provided depositary services for 7 open pension funds and 45 investment funds and sub-funds. Thanks to a high level of liquidity, the Bank did not need to aggressively build its deposit base, which is an expensive process. Even with a weakened level of liquidity and high market volatility reported in 2008, the Bank continued to offer its customers attractive exchange rates. Also, we introduced the CitiFX Pulse internet platform, a new and more advanced version of the previously used Online Trading platform, which allows the Bank's clients to execute FX transactions online. Last year the number of its active users increased by approximately 25% and the income from the FX transactions executed via the platform exceeded 20% YOY.

Particularly noteworthy is also the fact of adding new solutions to existing range of factoring products by the Transaction Banking Division. Such new offers include soft debt collection factoring, straight discount, guaranteed card payment orders and electronic bank statements for Visa Business holders. In 2009 the Bank was also active in the development of supplier finance programs within the Trade Finance Products. In the 4<sup>th</sup> quarter of the previous year we engineered such programs among 300 companies and the Bank's assets increased three times. Throughout 2009, Citi Handlowy continued to maintain its position of indisputable leadership in the pre-paid payment cards market in Poland. As at the end of the year, an estimated Bank's market share measured with the value of pre-paid Visa cards turnover reached over 80%.

The Bank is also a leader in financial services for public sector. The most noteworthy achievements which took place in that discrete field included the municipal bond issues programs conducted by our Bank for the cities of Warsaw and Białystok for PLN 4 billion and PLN 100 billion respectively. Citi Handlowy also acted as an underwriter for PLN 300 million in the Bond Issue Program for Polska Grupa Energetyczna S.A. for total amount of PLN 2 billion. In addition, the Bank fully underwrote and executed a road construction bond issue of Bank Gospodarstwa Krajowego in an amount of PLN 600 million. Among its unquestionable successes we should mention the Bank's co-financing dividend payment for PZU for the total amount of PLN 3 billion. It was one of the most spectacular reverse repo transactions of last twenty years!

With reference to the Retail Banking Sector, in the year 2009 the Bank reported a huge interest in its offer of flagship products and services. These included among others credit cards whose total number at the end of the year reached 1,031,000, which was a 1.5% growth versus the portfolio size at the end of 2008. In order to meet the needs of our customers, since May 2009 our Bank has been offering microchip-equipped credit cards for individual customers. After a signature, a holder's picture and 72 hour protection in case of a card's loss, it is another security tool which makes our credit cards one of the safest products in the market. Last year Citi Handlowy as the first Polish bank launched a new model of credit card sale. It involves distribution of co-branded credit card by a mobile network operator. Thanks to this campaign, since mid-March the Citibank Plus credit card was available in 17 Plus GMS shops and by the end of the year the number reached 140. The offer of non-financial privileges or benefits was a novelty in the market last year. These included 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.

In 2009 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.

Last year the Bank's efforts were recognized with many prestigious awards. 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. Thanks to the votes of its customers, the Bank came out at the top of the ranking of the best institutions providing cash management services: "Best Cash Management Bank". The title is awarded by the prestigious UK Euromoney magazine. Citi Handlowy's trust services were top ranked within the "Leading Clients" category in a survey conducted among professional clients by "Global Custodian", a specialist publishing house. The Bank's offer addressed to the Small and Medium Enterprises received the Thornless Rose award based on a ranking prepared by the Economic Research Institute for the Home&Market monthly.

A strategic reflection of the Bank's social responsibility is its complex commitment to financial education. The results of a broad-based study on the state of financial knowledge of the Polish population have proven that the direction which we chose is correct. With reference to the above I suggested developing the National Strategy of Financial Education with wide support of social organizations and public institutions. This is the project beyond any division which aims to create a modern and comprehensive system of financial education tailored to changing needs of our society. In 2009 via the Bank's Kronenberg Foundation, as in previous years, we carried out educational programs for hundreds of thousands of children, youths, teachers and adults. Our campaigns such as "From a Grosz to a Złoty", "My Finances", "Week for Savings" or "ZrozumFinanse.pl" ("Understand Your Finances") are the most important educational programs devoted to finance and economics in Poland. We also have the biggest in Poland **Employee Volunteer Program** by means of which we share the knowledge, skills and experience with local communities where we live and work. Our Bank's commitment to social responsibility was recognized with many awards. We were the top ranked entity within the Banking and Insurance category of the Responsible Companies Ranking published by Gazeta Prawna. In addition, the Bank, as one of sixteen companies, was voted a member of the new RESPECT Index on WSE. The RESPECT Index singles out the companies for which responsible approach to business forms permanent part of their management approach.

In 2010 we adopted the New Strategy for our Bank's Development. Our goal is to remain committed to generating sustainable value for our shareholders, by providing a relevant return on capital as well as maintaining liquidity and capital adequacy on a level that will guarantee safety for our customers and create public trust towards our Bank. We will focus on strengthening customer relationships by offering services tailored to the expectations and preferences of our customers. We wish to become a leader in provision of innovative solutions with the highest level of satisfaction delivered to our clients. We would like to adjust the role of our Bank to better suit the process of development of our both corporate and individual customers! By meeting the standards of quality expected by our customers, we will develop long-term relationships with them. Our motto for the coming years is to commit ourselves to maximize customer satisfaction, build trust among our customers and introduce new innovative solutions that are tailored to their needs.

While presenting to you this report for the year 2009, I would like to thank all our customers and shareholders for the trust they placed in us. On behalf of all Management Board members, I also wish to thank the Supervisory Board, whose members have had substantial contribution to supervision of our Bank's activities. I would also like to thank all employees for their commitment and contribution to strengthening the market position of our Group.

Sławomir S. Sikora,

President of the Management Board of the Bank