REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN THE FIRST HALF OF 2010

AUGUST 2010

CONTENTS

I. Poland's Economy in the first half of 2010

1. Main macroeconomic trends

Gross Domestic Product in the first quarter of 2010 grew 3.0% YOY compared to 3.3% in the fourth quarter of 2009 and 1.8% YOY in the whole year of 2009. Industrial production grew between January and June 2010 by an average of 10.6% YOY. Global recovery, especially concerning the major trade partners (Germany) led to increased demand for Polish exports, supporting further increases in industrial production. The pace of exports growth was 22.2% YOY in the period of January to June, compared to a decrease of 11.2% YOY in the second half of 2009 and -17.3% in the whole of 2009. The pace of imports growth in the period was similar and stood at 22.7% YOY compared to -20.7% YOY in the second half of 2009 and -25.6% YOY in the whole of 2009.

The gradual economic recovery fostered a slight improvement in the labor market. Employment in the period of January to June dropped by an average of 0.2% YOY compared to the decrease of 2.2% YOY in the second half of 2009 and to the drop of 1.5% YOY in the whole of 2009. At the same time a slight decrease in the pace of pay rises in the enterprise sector was recorded, to 3.3% YOY from 3.5% in the second half of 2009 and 4.2% in the whole of 2009, which suggests that the pay rise pressure is still limited. As a result of the above-mentioned trends work efficiency grew and unit labor costs dropped. In February the unemployment rate peaked at 13% and started its downward trend, reaching 11.6% at the end of June 2010.

In the period of January to June 2010 the average growth of consumer goods and services prices slowed to 2.7% YOY from 3.4% YOY in the second half of 2009 and 3.5% YOY in the whole of 2009. Weaker inflation was a result of the decrease in annual dynamics of prices of housing and energy as well as food and it was also supported by the stronger zloty. The appreciation of the zloty and a weak demand pressure contributed to the decrease of core inflation indicators. In the period of January to June 2010 average inflation net of food and energy amounted to 1.9% YOY in the first half of 2010, compared to 2.8% YOY in the second half of 2009 and 2.7% YOY in the whole of 2009.

Low dynamics of prices and still moderate pace of economic growth enabled the Monetary Policy Council (RPP) to leave the NBP reference rate at a historically low level of 3.5%. However, concerns over excess foreign capital inflow led the monetary authorities to intervene in the FX market in April. Although the intervention was a one-off event, the representatives of the RPP and the Ministry of Finance explicitly signaled that they may take into account adopting a more active foreign exchange stance if future currency rate fluctuations are violent and unrelated to the changes in Poland's economic fundamentals.

2. Money and Forex markets

In the first half of 2010 significant fluctuations were recorded in the FX market. As global risk appetite increased, there was growing demand for domestic assets, including the zloty, which strengthened to about 3.83 EUR/PLN in the first quarter of 2010. The NBP FX intervention in April, growing concerns over the fiscal condition of the Eurozone and increased concerns over the stability of global recovery finally contributed to the depreciation of the zloty at the end of the second quarter of 2010. As a result the EUR/PLN rate reached PLN 4.15 at the end of June, compared to 4.11 at the end of 2009. In the same period the USD/PLN rate grew to PLN 3.39 from PLN 2.85.

Although the Monetary Policy Council refrained from changing the NBP interest rates, the first half of the year saw a significant slump in money market interest rates. The WIBOR3M rate, which influences the interest on loans and credits in the Polish economy, decreased to 3.87% at the end of June 2010, compared to 4.27% at the end of 2009. Thus the spread between money market rates and the NBP reference rate diminished considerably, reflecting partial normalization of the money market situation.

3. Capital Market

The first half of 2010 was a period of high volatility in financial markets. In the first quarter of 2010 the situation in the equity market was favorable for investors and all major WSE indices recorded positive returns. The second quarter of 2010, on the other hand, was a time of negative news, including the financial condition of the Eurozone countries (Greece, Spain), Chinese plans regarding tightening the monetary policy, reduction of investment activity of the biggest US banks, introducing a ban on short-selling in Germany and the intention to introduce an additional bank tax in the UK. All these events destabilized the situation in global equity markets, contributing to the growth of risk aversion among investors and their moving away from risky assets. These global factors coupled with excess supply of equities resulting from major public offerings and accelerating state company privatization process took their toll on the capital market. Since the beginning of 2010 the biggest decrease among the major indices was recorded by WIG20, which slumped by 4.9%. The other end of the scale was occupied by mid-cap companies, whose index was the only one to finish the first half of 2010 with a positive return (+1.2%). From the sector perspective, food and media companies are worth mentioning because they recorded two-digit increases (22.7% and 10% respectively). In the same period the weakest were IT companies (a decrease of 9.4% compared to the level at the end of 2009) together with developers (-9.3% since the beginning of the year).

Since the beginning of 2010 the number of companies listed on the WSE has increased by 4 entities (8 debuts, three transferred from New Connect and 7 delisted) and at the end of the first quarter of 2010 there were 383 companies on the main floor, including 23 foreign ones. After 6 months of 2010 the total value of public offerings was at a record level of PLN 12.9 billion, although one should bear in mind that it is mainly the result of floating the PZU and Tauron shares on the WSE. In effect, despite the decline, in the first half of 2010 the capitalization of WSE-listed companies grew from PLN 715.8 billion (as at the end of 2009) to PLN 727.2 billion at the end of June 2010. At the end of the first half of 2010 the capitalization of domestic companies amounted to 62% of the total equity market capitalization.

Warsaw Stock Exchange equity market, as at 30 June 2010

Index	End of H1 2010	Change (%)	End of 2009	Change (%)	End of H1 2009
WIG	39,392.47	(1.5%)	39,985.99	29.5%	30,419.03
WIG-PL	38,533.81	(2.1%)	39,372.61	28.2%	30,052.78
WIG20	2,271.03	(4.9%)	2,388.72	21.9%	1,862.36
mWIG40	2,373.84	1.2%	2,346.14	34.2%	1,769.47
sWIG80	10,980.45	(1.0%)	11,090.93	17.8%	9,319.96
Sector specific sub-indices					
WIG-Banks	5,786.52	(1.4%)	5,869.10	55.7%	3,716.62
WIG-Construction	5,396.44	7.4%	5,026.32	5.9%	5,095.62
WIG-Chemicals	3,331.14	4.1%	3,201.34	13.5%	2,935.30
WIG-Developers	2,628.28	(9.3%)	2,897.23	25.6%	2,092.49
WIG-Energy	3,775.17	(5.6%)	3,998.60	-	-
WIG-IT	1,160.15	(9.4%)	1,281.06	5.4%	1,100.47
WIG-Media	3,312.80	10.0%	3,012.68	33.7%	2,476.95
WIG-Fuel industry	2,482.82	1.9%	2,435.46	20.2%	2,065.02
WIG-Food industry	3,759.64	22.7%	3,063.84	64.1%	2,290.99

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

Volumes of trade in shares, bonds and derivative instruments on WSE as at 30 June 2010

	H1 2010	Change (%) HOH	H2 2009	Change (%) YOY	H1 2009
Shares *(PLN million)*	226,260	10.6%	204,549	50.2%	150,654
Bonds *(PLN million)*	1,185	(12.8%)	1,360	(25.5%)	1,592
Futures contracts *(thousand units)*	15,625	11.3%	14,035	21.9%	12,814
Option contracts *(thousand units)*	682	46.2%	466	80.9%	377.8

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

The first half of 2010 brought about a considerable increase in investor activity in the cash market. The volume of share trade was almost PLN 226.3 billion during the period, growing by over 10% during the half-year and 50.2% annually.

In the same period there was a visible slump in debt security trading on the WSE. During the first six months of 2010 investors generated volume of slightly above PLN 1.2 billion, compared to PLN 1.6 billion in the first half of 2009 and PLN 1.4 billion in the second half.

The derivatives market saw a clear improvement in liquidity. In the case of futures contracts the volume was 15.6 million units, which translated into growth of almost 22% YOY and 11.3% as compared to the second half of 2009. Option contracts recorded even more impressive volume dynamics. The trade volume of these instruments exceeded 681 thousand units, which means a growth of 46.2% compared to the second half of 2009 and almost 81% compared to the same period of 2009.

4. Banking sector

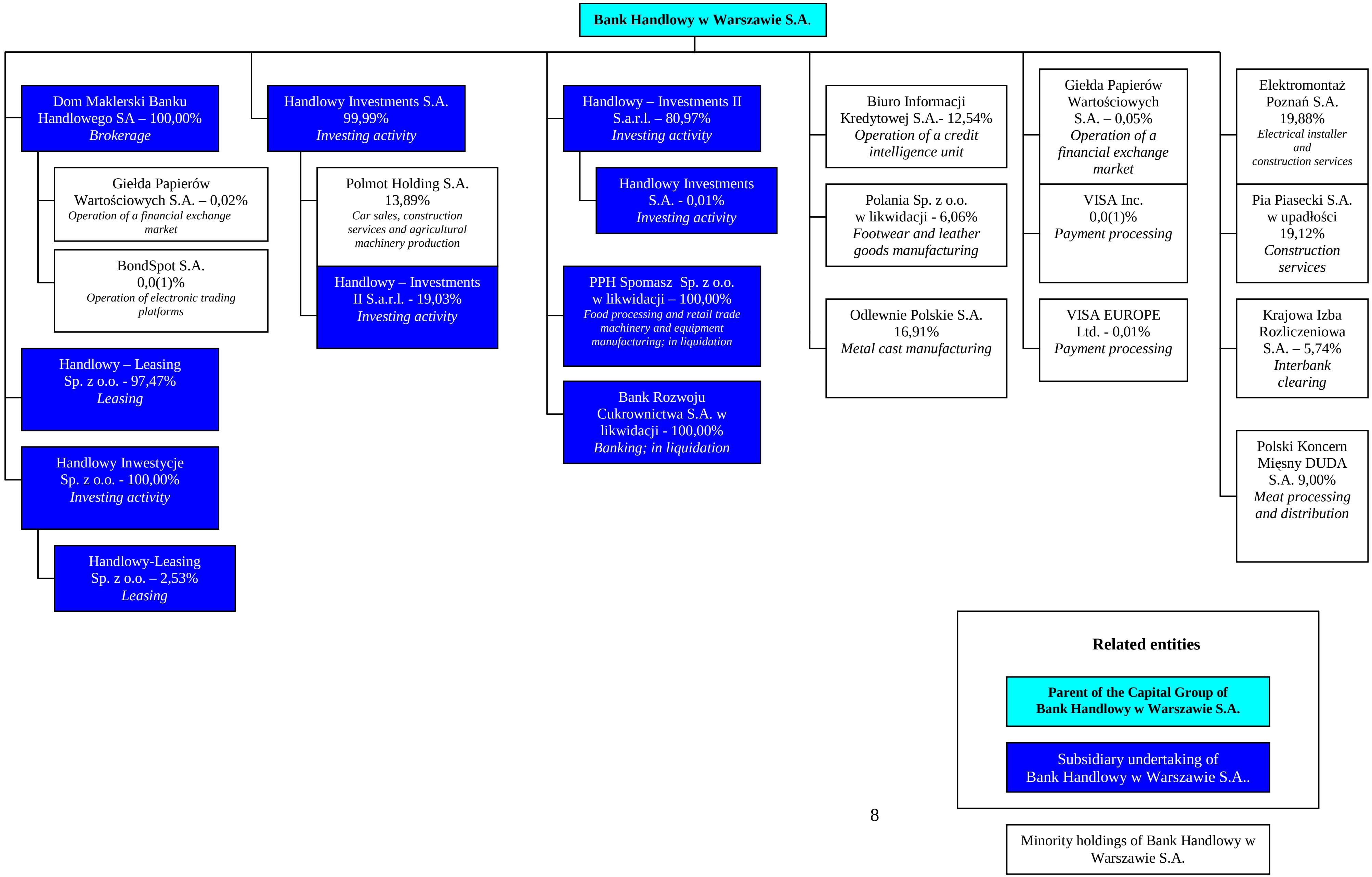
In the first half of 2010 the Polish banking sector started benefiting from a gradual improvement in macroeconomic conditions. Compared to the previous year the performance of the banking sector was better and the liquidity situation in the interbank market stabilized. Today banks in Poland are capitally strong, they maintain capital adequacy ratios at safe levels and are able to absorb large provisions set up to cover receivables at risk. It means that the Polish banking sector has steered clear of the recent market volatility and proved its stability and full security for the clients.

The first half of 2010 saw a 5% drop in the value of corporate loans compared to the first half of 2009, which was influenced by such factors as tightened credit policy on the part of banks and low demand for loans on the part of corporations that postponed their investment plans. Household loans, on the other hand, grew during the year by 13%, which was caused to a large extent by increase in mortgages denominated in PLN (30% YOY) and consumer loans (growth by about 7% YOY).

Because of postponing investments by companies and a gradual improvement in their financial condition in the last months, we have seen a significant increase in the volume of corporate deposits. At the end of June 2010 the volume of corporate deposits was over PLN 169 billion, which was an increase of about 13% compared to the first half of 2009, while household deposits reached almost PLN 392 billion, which was an increase of 9% YOY.

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

The organizational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. (“Bank”) as at 30 June 2010; the Bank’s share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA – 100,00% Brokerage
Giełda Papierów Wartościowych S.A. – 0,02% Operation of a financial exchange market
BondSpot S.A. 0,0(1)% Operation of electronic trading platforms
Handlowy – Leasing Sp. z o.o. - 97,47% Leasing
Handlowy Inwestycje Sp. z o.o. - 100,00% Investing activity
Handlowy-Leasing Sp. z o.o. – 2,53% Leasing
Handlowy Investments S.A. 99,99% Investing activity
Polmot Holding S.A. 13,89% Car sales, construction services and agricultural machinery production
Handlowy – Investments II S.a.r.l. - 19,03% Investing activity
Handlowy – Investments II S.a.r.l. – 80,97% Investing activity
Handlowy Investments S.A. - 0,01% Investing activity
PPH Spomasz Sp. z o.o. w likwidacji – 100,00% Food processing and retail trade machinery and equipment manufacturing; in liquidation
Bank Rozwoju Cukrownictwa S.A. w likwidacji - 100,00% Banking; in liquidation
Biuro Informacji Kredytowej S.A.- 12,54% Operation of a credit intelligence unit
Polania Sp. z o.o. w likwidacji - 6,06% Footwear and leather goods manufacturing
Odlewnie Polskie S.A. 16,91% Metal cast manufacturing
Giełda Papierów Wartościowych S.A. – 0,05% Operation of a financial exchange market
VISA Inc. 0,0(1)% Payment processing
VISA EUROPE Ltd. - 0,01% Payment processing
Elektromontaż Poznań S.A. 19,88% Electrical installer and construction services
Pia Piasecki S.A. w upadłości 19,12% Construction services
Krajowa Izba Rozliczeniowa S.A. – 5,74% Interbank clearing
Polski Koncern Mięsny DUDA S.A. 9,00% Meat processing and distribution
Related entities
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiary undertaking of Bank Handlowy w Warszawie S.A..
Minority holdings of Bank Handlowy w Warszawie S.A.

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

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

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30.06.2010
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	6,063,387*
Dom Maklerski Banku Handlowego S.A. („DMBH")***	Brokerage	subsidiary	100.00%	full consolidation	95,544
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	160,102
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	29,230
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 the first half of 2010*

***Including indirect participations*

**** Pre-audit data*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30.06.2010
Handlowy Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	10,311
Handlowy Investments II S.a.r.l.***	Investing activity	subsidiary	100.00%**	equity valuation	6,907
Bank Rozwoju Cukrownictwa S.A. w likwidacji***	Banking	subsidiary	100.00%	equity valuation	company in liquidation

***Including indirect participations*

**** Pre-audit data*

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

1. Summary financial data of the Group

PLN m	**30.06.2010**	**31.12.2009**
Total assets	40,134.7	37,633.1
Equity	6,132.4	6,199.4
Loans*	11,482.1	11,974.7
Deposits*	21,174.0	20,572.0
Net profit	349.4	504.4
Capital adequacy ratio	17.3%	16.7%

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

2. Financial result of the Group for the first half of 2010

2.1 Income statement

In the first half of 2010 the Group generated a gross profit of PLN 446.5 million, which is an increase of PLN 284.5 million, or 175.7%, compared to the first half of 2009. In the same period the consolidated net profit was PLN 349.4 million, which is an increase of PLN 231.8 million, or 197.2%, compared to the same period of 2009. Operating revenue (comprising net interest and commission income, dividend income, net gains on financial instruments held for trading and on revaluation, net gains on investment debt securities, net gains on investment equity securities and net other operating income) grew slightly in the first half of 2010 compared to the first half of 2009, i.e. by PLN 69.3 million (5.7%), and amounted to PLN 1,289.7 million.

The key contributors to earnings growth included net commission income, which grew in the first half of 2010 by over PLN 60 million to the level of nearly PLN 317 million, net gains on financial instruments held for trading and on revaluation (growth by over PLN 42 million), and better result on investment debt securities as at the end of the first half of 2010 (change from PLN 35.2 million to PLN 57.7 million). Another contributor to the net result was lowered overheads and general administrative expenses and amortization. These costs were reduced by PLN 50.5 million.

Selected income statement items

	H1		Change	
PLN ‘000	**2010**	**2009**	**PLN ‘000**	**%**
Net interest income	746,862	773,978	(27,116)	(3.5%)
Net commission income	316,846	256,807	60,039	23.4%
Dividend income	5,846	5,925	(79)	(1.3%)
Net gains on financial instruments held for trading and on revaluation	156,645	114,577	42,068	36.7%
Net gains on investment debt securities	57,692	35,245	22,447	63.7%
Net gains on investment equity securities	2,516	3,437	(921)	(26.8%)
Net other operating income	3,251	30,418	(27,167)	(89.3%)
Total income	**1,289,658**	**1,220,387**	**69,271**	**5.7%**
Overheads and general administrative expenses and depreciation, including:	(676,598)	(727,120)	50,522	6.9%
Overheads and general administrative expenses	(644,061)	(684,280)	40,219	5.9%
Depreciation/amortization of tangible and intangible fixed assets	(32,537)	(42,840)	10,303	24.0%
Net gains on sale of fixed assets	(217)	2,202	(2,419)	(109.9%)
Net change in impairment losses	(166,183)	(332,996)	166,813	50.1%
Share in net profits/(losses) of entities valued by equity method	(158)	(509)	351	69.0%
Profit before taxation	**446,502**	**161,964**	**284,538**	**175.7%**
Income tax expense	(97,132)	(44,406)	(52,726)	(118.7%)
Net profit	**349,370**	**117,558**	**231,812**	**197.2%**

2.1.1 Revenue

Net interest income in the first half of 2010 was PLN 746.9 million compared to PLN 774.0 million in the same period of 2009 (decline of PLN 27.1 million, or 3.5%), the main reasons being lower interest revenue on loans to the non-financial sector and on deposits in banks.

Net commission income in the first half of 2010 was PLN 316.8 million compared to PLN 256.8 million in the same period of 2009 (growth of PLN 60 million, or 23.4%), the main reasons being better result on payment and credit cards (growth by over PLN 22 million) and brokerage.

Net gains on financial instruments held for trading and on revaluation in the first half of 2010 was PLN 156.6 million compared to PLN 114.6 million in the same period of 2009 (growth of PLN 42.1 million, or 36.7%).

2.1.2 Expense

In the first half of 2010 the overheads and general administrative expenses and depreciation amounted to PLN 676.6 million compared to PLN 727.1 million in the same period of 2009 (decline of PLN 50.5 million, or 6.9%). The reduction in expenses results mainly from lowering general administrative expenses and depreciation.

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

Net impairment losses

	H1		Change	
PLN ‘000	**2010**	**2009**	**PLN ‘000**	**%**
Net impairment losses incurred but not reported (IBNR)	(30,554)	(34,947)	4,393	12.6%
Net impairment losses on loans and off-balance sheet liabilities	(135,629)	(298,049)	162,420	54.5%
accounted for individually	(180)	(207,420)	207,240	99.9%
accounted for collectively, on a portfolio basis	(135,449)	(90,629)	(44,820)	(49.5%)
Total change in impairment losses	**(166,183)**	**(332,996)**	**166,813**	**50.1%**

In the first half of 2010 net impairment losses stood at PLN 166.2 million compared to PLN 333.0 million in the first half of 2009. Lower impairment losses result from the general economic recovery. Due to lasting recovery in the economy and stabilization of clients’ financial situation the risk of irregular debt settlement by borrowers was lower.

2.1.4 Ratios

Selected financial ratios	H1 2010	H1 2009
Return on equity (ROE) */	12.8%	6.9%
Return on assets (ROA)	1.9%	0.9%
Cost/income	52.5%	59.5%
Non-financial sector loans to non-financial sector deposits	54%	69%
Non-financial sector loans to total assets	29%	32%
Net interest income to total revenue	58%	64%
Net commission income to total revenue	25%	21%

**The total of net income from four quarters divided by average equity from four quarters net of profit of the current period*

Employment within the Group

jobs	**H1 2010**	**H1 2009**	**Change**	
			jobs	**%**
Average no. of jobs in the period	5,483	5,394	89	2
No. of jobs at the end of the period	5,829	5,360	469	8

In the first half of 2010 the Group added jobs compared to the same period last year, which was a result of extending the Bank’s scope of activity to operational processes, which so far had been conducted by external companies cooperating with the Bank, the aim being further optimization of the processes and increasing customer satisfaction.

2.2 Balance Sheet

As at 30 June 2010, total assets of the Group reached PLN 40,134.7 million and were 6.6% higher than at the end of 2009.

Balance Sheet

	As at		Change	
PLN '000	30.06.2010	31.12.2009	PLN '000	%
ASSETS				
Cash and balances with central bank	1,366,986	4,113,355	(2,746,369)	(66.8%)
Financial assets held for trading	4,911,945	5,397,125	(485,180)	(9.0%)
Debt securities available-for-sale	17,402,931	8,290,225	9,112,706	109.9%
Equity investments, held at equity value	55,510	56,895	(1,385)	(2.4%)
Equity investments	23,744	24,140	(396)	(1.6%)
Loans and advances	13,583,453	16,777,255	(3,193,802)	(19.0%)
to financial sector	2,101,396	4,802,562	(2,701,166)	(56.2%)
to non-financial sector	11,482,057	11,974,693	(492,636)	(4.1%)
Property and equipment	489,572	505,192	(15,620)	(3.1%)
land, buildings and equipment	471,264	486,884	(15,620)	(3.2%)
investment property	18,308	18,308	-	-
Intangible assets	1,279,240	1,282,574	(3,334)	(0.3%)
Deferred income tax assets	372,504	476,372	(103,868)	(21.8%)
Other assets	635,893	690,384	(54,491)	(7.9%)
Non-current assets available-for-sale	12,900	19,546	(6,646)	(34.0%)
Total assets	**40,134,678**	**37,633,063**	**2,501,615**	**6,6%**
LIABILITIES				
Liabilities towards the central bank	-	980,446	(980,446)	-
Financial liabilities held for trading	3,374,890	3,108,493	266,397	8.6%
Financial liabilities valued at amortized cost	29,032,848	26,359,837	2,673,011	10.1%
Deposits from	27,195,092	25,307,218	1,887,874	7.5%
financial sector	6,020,954	4,735,260	1,285,694	27.2%
non financial sector	21,174,138	20,571,958	602,180	2.9%
Other liabilities	1,837,756	1,052,619	785,137	74.6%
Provisions	25,596	49,390	(23,794)	(48.2%)
Deferred income tax liabilities	47,644	-	47,644	-
Other liabilities	1,521,293	935,508	585,785	62.6%
Total liabilities	**34,002,271**	**31,433,674**	**2,568,597**	**8.2%**
EQUITY				
Issued capital	522,638	522,638	-	-
Share premium	3,031,149	3,030,546	603	0.0%
Revaluation reserve	(2,932)	(81,026)	78,094	96.4%
Other reserves	2,251,704	2,225,712	25,992	1.2%
Retained earnings	329,848	501,519	(171,671)	(34.2%)
Total equity	**6,132,407**	**6,199,389**	**(66,982)**	**(1.1%)**
Total liabilities and equity	**40,134,678**	**37,633,063**	**2,501,615**	**6.6%**

2.2.1 Assets

Gross loan receivables *

	As at		Change	
PLN '000	30.06.2010	31.12.2009	PLN '000	%
Banks and other monetary financial institutions	1,602,734	3,478,494	(1,875,760)	(53.9%)
Non-banking financial institutions	520,533	1,346,388	(825,855)	(61.3%)
Non-financial sector entities	6,674,757	7,143,749	(468,992)	(6.6%)
Individuals	6,194,996	6,177,923	17,073	0.3%
Government units	78,631	86,947	(8,316)	(9.6%)
Other receivables	7,201	5,509	1,692	30.7%
Total	**15,078,852**	**18,239,010**	**(3,160,158)**	**(17.3%)**

** Receivables with payable interest*

At the end of the second quarter of 2010 total assets reached PLN 40.1 billion compared to PLN 37.6 billion at the end of 2009, which is an increase of PLN 2.5 billion, or 7%. The biggest contributor was the growth of the portfolio of debt securities available-for-sale (growth of PLN 9.1 billion, or 110%), mainly as a result of a higher balance of NBP bills and a bigger bond portfolio at the end of the second quarter of 2010 as compared to the end of 2009. Meanwhile the balance of „cash and balances with central bank" shrank (decrease of PLN 2.7 billion, or 67%), which is connected with managing the mandatory reserve. The balance of loans and advances also diminished (decrease of PLN 3.2 billion, or 19%), mainly as a result of a decrease in payables due from banks (decrease of PLN 1.9 billion, or 54%). The decrease in non-financial sector loans resulted mainly from diminishing balance of corporate loans (decrease of PLN 0.5 billion, or 7%).

Debt securities portfolio

	As at		Change	
PLN '000	30.06.2010	31.12.2009	PLN '000	%
Treasury bonds	10,519,184	10,471,216	47,968	0.5%
Municipal bonds	5,215	19,016	5,215	(72.6%)
Treasury bills	97,765	827	96,938	11721.6%
Certificates of deposit and banks' bonds	548,799	40,729	508,070	1247.4%
Issued by non-financial entities	32,111	34,230	(2,119)	(6.2%)
NBP bills	7,699,252	-	7,699,252	-
T O T A L	**18,902,326**	**10,566,018**	**8,336,308**	**78.9%**

2.2.2 Liabilities

Financial liabilities valued at amortized cost

	As at		Change	
PLN '000	30.06.2010	31.12.2009	PLN '000	%
Due to financial sector:	**6,017,896**	**4,731,434**	**1,286,462**	**27.2%**
- banks and other monetary financial institutions	3,921,731	1,632,227	2,289,504	140.3%
- due to non-banking financial sector	2,096,165	3,099,207	(1,003,042)	(32.4%)
Due to non-financial sector, including:	**21,153,737**	**20,551,250**	**602,487**	**2.9%**
- corporate clients	12,346,930	10,576,734	1,770,196	16.7%
- individuals	6,246,449	6,336,304	(89,855)	(1.4%)
Other liabilities including accrued interest	**1,861,215**	**1,077,153**	**784,062**	**72.8%**
Total	**29,032,848**	**26,359,837**	**2,673,011**	**10.1%**

As for liabilities, the biggest change (increase of PLN 2.7 billion, or 10%) was recorded in the category of liabilities valued at amortized cost. The change was primarily the result of the expansion of banks' deposits (growth of PLN 2.3 billion, or 140%) and higher balance of corporate clients' term deposits (growth of PLN 1.1 billion, or 14%) as at 30 June 2010.

2.2.3 Sources and uses of funds

Source of funds	**30.06.2010**	**31.12.2009**
Funds of banks and other monetary financial institutions	5,279,450	2,474,630
Funds of customers and government units	23,753,398	23,885,207
Own funds with net income	6,132,407	6,199,389
Other external funds	4 969 423	5,073,837
Total source of funds	**40 134 678**	**37,633,063**

Use of funds	**30.06.2010**	**31.12.2009**
Receivables from banks and other monetary financial institutions	1,602,382	3,477,729
Receivables from customers and government units	11,981,071	13,299,526
Securities, shares and other financial assets	22 394 130	13,768,385
Other uses of funds	4,157,095	7,087,423
Total use of funds	**40 134 678**	**37,633,063**

2.3 Equity and capital adequacy ratio

The value of the Group's equity as at the end of the first half of 2010 increased by 1.5% in comparison with year-end of 2009. Significant changes in the size of equity included lowering the revaluation reserve by PLN 78 million and raising the general risk reserve by PLN 32.5 million.

Equity*

	As at		**Change**	
PLN '000	**30.06.2010**	**31.12.2009**	**PLN '000**	**%**
Issued capital	522,638	522,638	-	-
Share premium	3,031,149	3,030,546	603	0.0%
Supplementary capital	1,746,108	1,750,757	(4,649)	(0.3%)
Revaluation reserve	(2,932)	(81,026)	78,094	96.4%
General risk reserve	497,500	465,000	32,500	7.0%
Other equity	(11,426)	7,075	(18,501)	261.5%
Total equity	**5,783,037**	**5,694,990**	**88,047**	**1.5%**

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

Capital funds are fully sufficient to ensure financial security to the institution and the deposits it accepts, and to ensure 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	**30.06.2010***	**31.12.2009****
I Own funds for the calculation of capital adequacy ratio, including:	**4,434,867**	**4,329,257**
Less in core and supplementary funds		
- interests in subordinated financial entities	55,510	56,895
- intangible assets, including:	1,279,239	1,282,574
goodwill	*1,245,976*	*1,245,976*

PLN '000	30.06.2010*	31.12.2009**
II Risk-weighted assets and off-balance sheet liabilities (bank portfolio)	**17,358,250**	**17,536,963**
III Total capital requirements, of which:	**2,053,921**	**2,072,351**
- credit risk capital requirements (II*8%)	1,388,660	1,402,957
- counterparty risk capital requirements	127,600	131,142
- excess concentration and large exposures risks capital requirements	53,772	54,387
- total market risk capital requirements	42,951	106,772
- operational risk capital requirements	361,165	345,885
- other capital requirements	79,773	31,208
Capital adequacy ratio (I/III*12,5)	**17.27%**	**16.71%**

** Capital Adequacy Ratio calculated according to the rules stated in Resolution No 76/2010 of the Commission for Banking Supervision dated 10 March 2010 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 2, item 11).*

***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).*

As at 30 June 2010 the Group's capital adequacy ratio stood at 17.27% up 0.56 percentage points from the end of 2009, which was primarily a consequence increased own funds.

2.4 Earnings guidance for 2010

The Bank, the parent entity, did not publish earnings guidance for 2010.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2010

1. Lending and other risk exposure

1.1 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 customer. Moreover, each borrower is followed up on an ongoing basis so that any symptoms of deteriorating creditworthiness may be detected early and subsequent corrective action implemented. In the first half of 2010, the Group continued optimization of the lending process and adjustment of the loans offered to the actual needs of the customers and the current situation in the market. The portfolio of individual customers' debts is managed by means of risk management models that take into account risk and profitability of the individual loan groups within the portfolio. In the credit risk assessment process, and in particular during scorecard analysis, information from BIK (Credit Information Bureau) is used.

Loans due from non-banking sector, gross

	As at		Change	
PLN '000	30 June 2010	31 Dec 2009	PLN '000	%
PLN loans	11,443,886	11,891,744	(447,858)	(3.8%)
FX loans	1,891,220	1,887,942	3,278	0.2%
Total	**13,335,106**	**13,779,686**	**(444,580)**	**(3.2%)**
Loans to non-financial sector	12,876,954	13,327,180	(450,226)	(3.4%)
Loans to financial sector	379,521	365,559	13,962	3.8%

PLN '000	As at 30 June 2010	As at 31 Dec 2009	Change PLN '000	Change %
Loans to public sector	78,631	86,947	(8,316)	(9.6%)
Total	**13,335,106**	**13,779,686**	**(444,580)**	**(3.2%)**
Non-financial business entities	6,674,757	7,143,748	(468,991)	(6.6%)
Private individuals	6,194,996	6,177,923	17,073	0.3%
Non-banking financial institutions	379,521	365,559	13,962	3.8%
Public administration units	78,631	86,947	(8,316)	(9.6%)
Other non-financial receivables	7,201	5,509	1,692	30.7%
Total	**13,335,106**	**13,779,686**	**(444,580)**	**(3.2%)**

As at 30 June 2010, lending exposure to non-banking sector was PLN 13,335 million, dropping by 3.2% in comparison to the figure of 31 December 2009. The biggest part of the non-banking loan portfolio are loans to businesses, which decreased by 6.6% in the reported period. Loans due from private individuals amounted at PLN 6,195 million, increasing by 0.3% in comparison to the end of 2009. This slight increase of the individual portfolio is attributed to promotion and sales activities focused on mortgage-based products.

The currency structure of the loans as at the end of June 2010 changed slightly as compared to the end of 2009. The share of foreign currency loans as at 30 June 2010 was 14.2% - a slight increase in comparison with the figure of 31 December 2009 due to a 3.8% decrease in the value of receivables denominated in PLN. It must be noted that the Group extends loans mainly in PLN, while FX loans are granted to corporate clients, who are, in the opinion of the Group, able to bear the foreign exchange risk without affecting their financial condition.

The Group monitors loan exposure concentration on a current basis, trying to avoid situations where the portfolio might rely on a small number of customers. As at the end of June 2010, the loan exposure of the Group to non-banking sector was within the legal concentration limit.

Concentration of exposure: Non-banking customers

PLN '000	30 June 2010			31 December 2009		
	On-Balance Sheet exposure*	**Off-Balance Sheet exposure**	**Total exposure**	**On-Balance Sheet exposure***	**Off-Balance Sheet exposure**	**Total exposure**
GROUP 1	338,222	366,298	704,520	284,984	351,906	636,890
GROUP 2	206,353	365,245	571,598	251,321	312,657	563,978
GROUP 3	12,861	491,814	504,675	1,472	85,689	87,160
CLIENT 4	8,303	465,218	473,522	7,512	469,583	477,095
GROUP 5	258,322	197,611	455,933	252,989	226,951	479,940
GROUP 6	5	329,231	329,237	70,536	657,004	727,539
CLIENT 7	1	318,299	318,300	1	319,519	319,520
GROUP 8	177,785	135,227	313,011	211,117	102,983	314,100
CLIENT 9	-	300,000	300,000	-	-	-
CLIENT 10	87,505	212,495	300,000	229,803	20,197	250,000
Total 10	**1,089,358**	**3,181,438**	**4,270,796**	**1,309,734**	**2,546,489**	**3,856,222**

** Does not include exposure related to shares and other securities held by the Bank*

1.2 Loan portfolio quality

The Group's receivables are assigned to two portfolios based on the loss of value criterion: one portfolio contains assets that are not exposed to the risk of impairment, and the other portfolio contains assets that are subject to such risk. Depending on the importance of a particular asset and the management method, the portfolio of assets subject to the risk of impairment is divided into assets assessed individually or those assessed on an aggregate (group) basis.

As at the end of June 2010, the loans exposed to the risk of impairment represented 17.2% of the total portfolio, whereas as at the end of December 2009 the share of such loans was 16.4%. The increase was related to the portfolio of clients assessed on an aggregate basis.

Gross loans to non-banking sector broken down by loan quality

PLN '000	As at 30 June 2010	Percent share	As at 31 December 2009	Percent share
Loans to non-banking sector, gross				
Not subject to impairment risk	11,046,375	82.5%	11,521,973	83.6%
Subject to impairment risk	2,288,731	17.2%	2,257,713	16.4%
Assessed on an individual basis	1,316,784	9.9%	1,432,211	10.4%
Assessed on an aggregate basis	971,947	7.3%	825,502	6.0%
Total loans to non-banking sector	**13,335,106**	**100.0%**	**13,779,686**	**100.0%**

In the opinion of the Management Board, the current provisions for receivables are the best estimate in terms of portfolio impairment, taking into consideration discounted cash flow projection related to repayment of the loans.

As at 30 June 2010, the portfolio impairment was calculated at PLN 1,495 million, which was an increase by PLN 34 million (i.e. 2.3%) as compared to end of December 2009. The portfolio of loans assessed on an aggregate basis was even more affected: an impairment of PLN 114.4 million was reported, which represented a 20.9% increase in comparison to the end of 2009. Impairment of the individually assessed portfolio reached PLN 118.2 million, increasing by 15.3% since December 2009. Provision cover ratio increased from 10.6% at the end of 2009 to 11.2% at the end of June 2010.

Impairment of assets: loans to non-banking sector

PLN '000	As at 30 June 2010	As at 31 Dec 2009	Change PLN '000	Change %
Impairment of assets due to unidentified losses incurred (IBNR)	179,806	141,982	37,824	26.6%
Impairment of assets	1,315,241	1,319,007	(3,766)	(0.3%)
Assessed on an individual basis	652,843	771,034	(118,191)	(15.3%)
Assessed on an aggregate basis	662,398	547,973	114,425	20.9%
Total impairment	**1,495,047**	**1,460,989**	**34,058**	**2.3%**
Provision cover ratio for total receivables	11.2%	10.6%		
Provision cover ratio for problem receivables	65.3%	64.7%		

1.3 Off-Balance Sheet exposure

As at 30 June 2010, the Group's off-Balance Sheet exposure amounted to PLN 13,508.6 million, dropping by PLN 258.8 million (1.9%) from the figure reported at the end of 2009. The biggest change concerned committed loans which decreased by PLN 565 million (4.9%).

Contingent off-balance sheet liabilities from clients

PLN '000	As at 30 June 2010	As at 31 Dec 2009	Change PLN '000	Change %
Guarantees	2,186,909	1,902,396	284,513	15.0%
Letters of credit issued	104,588	128,453	(23,865)	(18.6%)

	As at		Change	
PLN '000	30 June 2010	31 Dec 2009	PLN '000	%
Third party confirmed letters of credit	8,350	8,023	327	4.1%
Committed loans	10,863,500	11,428,560	(565,060)	(4.9%)
Underwriting of share issues	300,000	300,000	-	0.0%
Deposits payable to clients	6,428	-	6,428	-
Other	38,850	-	38,850	-
Total	**13,508,625**	**13,767,432**	**(258,807)**	**(1.9%)**
Provisions for off-Balance Sheet exposure	12,937	37,427	(24,490)	(65.4%)
Provision cover ratio	0.10%	0.27%		

The total value of collateral securing borrower's accounts or assets was PLN 2,412 million as at 30 June 2010 and PLN 2,482 million as at 31 December 2009.

In the first half of 2010, the Group issued 10,523 enforcement titles for the total amount of PLN 91.7 million, while in the first half of 2009 it issued 10,081 enforcement titles for the total amount of PLN 225.5 million.

At the end of the first half of 2010, the total value of guarantees or sureties issued by the Bank to one entity or its subsidiary was not higher than 10% of the Group's equity.

1.4 Information on major transactions with related entities, other than arm's length transactions

All transactions that the Bank or its subsidiaries closed in the first half of 2010 with its related entities were arm's length transactions.

2. External funding

At the end of June 2010, the Group's external funding totaled PLN 29,032.8 million and was higher by PLN 2,673 million (10.1%) than the figure reported at the end of 2009.

External funding

	As at		Change	
PLN '000	30 June 2010	31 Dec 2009	PLN '000	%
Amounts due to financial sector	**6,020,954**	**4,735,260**	**1,285,694**	**27.2%**
Current accounts, of which:	1,819,199	2,240,998	(421,799)	(18.8%)
- current accounts of banks	*943,314*	*1,474,356*	*(531,042)*	*(36.0%)*
Term deposits, of which:	4,198,697	2,490,436	1,708,261	68.6%
- term deposits of banks	*2,978,417*	*157,871*	*2,820,546*	*1786.6%*
Accrued interest	3,058	3,826	(768)	(20.1%)
Amounts due to non-financial sector	**21,174,138**	**20,571,958**	**602,180**	**2.9%**
Current accounts, of which:	10,037,186	10,611,554	(574,368)	(5.4%)
- corporate customers	*4,334,534*	*3,523,963*	*810,571*	*23.0%*
- private individuals	*4,399,093*	*4,545,352*	*(146,259)*	*(3.2%)*
- public sector	*742,871*	*1,957,517*	*(1,214,646)*	*(62.1%)*
Term deposits, of which:	11,116,551	9,939,696	1,176,855	11.8%
- corporate customers	*8,012,396*	*7,052,771*	*959,625*	*13.6%*
- private individuals	*1,847,356*	*1,790,952*	*56,404*	*3.1%*
- public sector	*729,339*	*690,391*	*38,948*	*5.6%*
Accrued interest	20,401	20,708	(307)	(1.5%)
Other liabilities	**1,837,756**	**1,052,619**	**785,137**	**74.6%**

	As at		Change	
PLN ‘000	**30 June 2010**	**31 Dec 2009**	**PLN ‘000**	**%**
Loans	750,787	828,585	(77,798)	(9.4%)
Other liabilities	1,084,507	221,452	863,055	389.7%
Interest accrued	2,462	2,582	(120)	(4.6%)
Total external funding	**29,032,848**	**26,359,837**	**2,673,011**	**10.1%**

The biggest change was related to the financial sector, namely banks (increased term deposit liabilities by over PLN 1,708.3 thousand compared to the end of 2009). In terms of liabilities to non-financial sector, the largest increase was reported for term deposits of corporate customers (increase by ca. PLN 960 thousand compared to the end of 2009).

Liabilities to non-banking sector

	As at		Change	
PLN ‘000	**30.06.2010**	**31.12.2009**	**PLN ‘000**	**%**
Liabilities to:				
Private individuals	6,298,667	6,390,760	(92,093)	(1.4%)
Non-financial business entities	12,995,394	11,302,506	1,692,888	15.0%
Non-profit organizations	520,906	359,135	161,771	45.0%
Non-banking financial institutions	2,095,275	3,088,258	(992,983)	(32.2%)
Public sector	1,473,852	2,649,390	(1,175,538)	(44.4%)
Other liabilities	245,529	70,627	174,902	247.6%
Total	**23,629,623**	**23,860,676**	**(231,053)**	**(1.0%)**
PLN liabilities	19,246,527	19,858,350	(611,823)	(3.1%)
FX liabilities	4,383,096	4,002,326	380,770	9.5%
Total	**23,629,623**	**23,860,676**	**(231,053)**	**(1.0%)**

3. Corporate and Investment Banking

3.1 Summary of segment results

PLN ‘000	**H1 2010**	**H1 2009**	**Change**	
			PLN ‘000	**%**
Net interest income	351,510	385,801	(34,291)	(9%)
Net fee and commission income	148,847	115,207	33,640	29%
Dividend income	2,705	3,189	(484)	(15%)
Net income on traded financial instruments and revaluation	142,998	94,084	48,914	52%
Net gain on debt investment securities	57,692	35,245	22,447	64%
Net gain on investment equity instruments	277	3,437	(3,160)	(92%)
Net other operating income	22,023	34,838	(12,815)	(37%)
Total income	**726,052**	**671,801**	**54,251**	**8%**
General administrative expenses and depreciation	(315,309)	(330,766)	15,457	5%
Profit / (loss) on sales of tangible fixed assets	(99)	1,654	(1,753)	(106%)
Net impairment losses	(6,505)	(230,944)	224,439	97%
Share in profits (losses) of undertakings accounted for under the equity method	(158)	(509)	351	69%
Profit before tax	**403,981**	**111,236**	**292,745**	**263%**
Cost / Income	**43%**	**49%**		

The main factors that determined the gross profit of the Corporate Banking for the first half of 2010 as compared to the corresponding period of 2009:

- Decrease in net interest income – lower income from loans (decrease of National Polish Bank reference rates and decrease of volumes) was partially compensated by lower cost of deposits as well as higher income from debt securities;
- Increase in net fee and commission income caused by higher income on brokerage and custody services and execution of payment orders;
- Increase of net income on traded financial instruments and revaluation due to improvement of customer activity, as well as higher income from proprietary management;
- Increase in net income in the area of investment debt securities as a result of higher level of turnover on investment debt securities portfolio;
- Decrease in operating costs due mainly to lower depreciation and staff costs and external services expenses
- Decrease of net impairment losses - as a result of significant improvement of the proportion between the amount of provisions released and created on loans at risk of impairment. Due to lasting recovery in the economy and stabilization of clients' financial situation the risk of irregular debt settlement by borrowers was lower.

3.2 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, it delivers modern liquidity management solutions as well as mass payments and receivables management products. By combining the traditional with the best of modern banking solutions, the Bank has pursued with effective consistency the strategy of broadening its product offer, through inclusion of truly innovative services. The bank is the leader in the field of introducing innovative transaction services into the market and the newly-implemented products strengthen this position.

In the first half of 2010 the Bank pursued its strategy for the years of 2010-2012. The main pillars of the strategy include new service models, providing clients with high-quality service and innovation through all service segments, which should differentiate the Bank against its competitors. As a result of the new strategy implementation the Bank aims to take the leadership position in the financial industry as far as efficiency of resource use is concerned.

The Bank's transaction services are recognized in the market. An achievement worth mentioning is receiving 3 Europroduct awards. In the 15th edition of the Europroduct competition the Bank received awards for discounted letter of credit, Citi Factoring, and Local Government Factoring. The competition is run under patronage of various institutions, including the Ministry of Economy, the Polish Agency for Enterprise Development, and the Chancellery of the Prime Minister. Apart from the above, the custodian services of Bank Handlowy w Warszawie S.A. received the Top Rated title in the Leading Clients category, in a survey conducted by Global Custodian publishing house.

- Liquidity and Cash Management Products

The Bank supplies innovative corporate liquidity management solutions. It continues to expand its offer of products with the aim of meeting the expectations of its clients. 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 benefit as they reduce their overall debt vis-à-vis the Bank and manage their funds more effectively. Drawing on its extensive experience, the Bank can deliver effective liquidity management services of consistently high quality.

- Payments and Receivables

Unikasa

Unikasa is a mass payments market brand of high recognition. It is perceived as 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. The Bank's counterparties can also choose to use the Unikasa Network infrastructure to form their own branded networks. Unikasa is now present in over 250 cities throughout Poland.

In the second quarter of 2010 Unikasa was equipped with additional functionality – one can now pay off their credit card debt via the Network. Starting from the second quarter of 2010, the service is available in over 450 points branded with the Unikasa logo. The Bank has continued to acquire new invoice issuers – from the beginning of 2010 the Unikasa Network accepts payments to six new issuers.

Domestic and Foreign Bank Transfers

The aim of the Bank is to continually improve customers' satisfaction through the highest quality of service. The Bank continues working on automatization of foreign bank transfers, which directly translates into quality and speed of servicing our clients' transfers. The automatic transfer processing module introduced at the turn of 2009 and 2010 is still being improved with new functionality added. The expected outcome of these improvements will be further increase of quality and speed of service. Currently the Bank is working on extending the hours of accepting domestic and foreign bank transfers, which will translate into improved customer satisfaction.

Electronic Post Office Money Transfers

Electronic Post Office Money Transfer is a product aimed at corporate clients who transfer money in cash to individuals. The Bank conducted 75% more Electronic Post Office Money Transfers in the first half of 2010 than in the first half of 2009, while the value of the transactions increased by 111%.

Loro transactions

The Bank continues to work on making its offer more attractive in this area. Recently the Bank has introduced significant changes in the process of payment settlement on the LORO accounts. The deadline hour for setting up transactions was extended for another group of key clients using this product. Due to this change the clients can manage their assets better and the Bank improved its position against the competitors.

MicroPayments

In the first half of 2010 the Bank continued to strengthen its position of the leader 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.

- Card products

The Bank occupies the position of the leader in the pre-paid payment cards market in Poland – estimated market share of the Bank stood at 51.5%. The Bank's pre-paid charge cards are most frequently used under loyalty, promotional and incentive programs and they have proven an excellent instrument of social benefit distribution. At the end of the second quarter of 2010 the number of actively used pre-paid cards stood at over 368 thousand.

The Bank has sought to strengthen its position in the business cards segment. At the end of the first half of 2010 the number of active cards of that type stood at almost 18 thousand.

Pursuing the strategy of inclusion of innovative financial products to its offer, the Bank has recently introduced two new solutions for card products:

– international pre-paid card. The new service makes it possible for customers to choose the currency – PLN, USD, or EUR – as the currency of the account which will then be used for the settlement of card operations. It is an extremely attractive solution for customers using a PLN denominated card who often travel abroad, where the EUR or USD currencies are used.

– implementation of the Visa Cash Back service for pre-paid cards – offering the possibility of cash withdrawal at retail and service outlets offering this service. The maximum single cash back amount is PLN 200. This service is available to the card holder only and may be conducted only on the territory of Poland.

- Cash products

The Bank offers its clients a broad range of cash products and solutions. Its product offer is responsive to the needs and requirements of diverse client groups. In addition to corporates, also budgetary units, courts and banks rely on the cash settlements offer of the Bank.

- E-Banking

The CitiDirect is the primary e-banking system offered by the Bank to its corporate clients.

At the end of the first half of 2010 the number of corporate clients in the CitiDirect e-banking system grew by 6.5% compared to the first half of 2009 and amounted to 10.5 thousand.

The share of bank statements delivered to customers through electronic means only stayed at a high and stable level and, similarly to the first half of 2009, amounted to 90%.

- EU Office

In the first half of 2010 the EU Office prepared its operational strategy based on resources available within the EU funds in the financial perspective of 2007-2013. The Office focused on making the present clients of the Bank active while maintaining the highest quality of the products offered.

The Bank representatives organized direct meetings with the clients in the Bank's branches in Lublin, Opole, Szczecin and Słupsk. During the meetings the possibilities to obtain EU financing were presented. The clients also obtained information on potential financing of innovative undertakings. The meetings were aimed mainly at small and medium enterprises. The campaign was effective in the sense of gaining new clients.

Additionally, the EU Office representatives conducted training on general EU issues for clients from the government administration sector. The training received a very positive reaction by the representatives of the sector. The training focused on how the government administration can apply for financing training by the EU and how it can use this financing.

The result of these activities was growing interest among the Bank's clients in using EU funds in their business.

- Trade Finance Products

The Bank's offer of trade finance products is well-developed. The key product in this area is factoring. In the first half of 2010 the Bank conducted a marketing campaign under the slogan of "CitiFactoring". The campaign promoted active management of the company's working capital. The campaign resulted in 55 new factoring contracts. The Bank's factoring revenue grew by 42% in the first half of 2010 compared to the same period of the previous year. Such high dynamics positions the Bank as one of the leading Polish factors.

The Bank strives to further increase customer satisfaction from the quality of the services. One of the tools used to achieve this is reducing bureaucracy and simplifying the communications between the clients and the Bank. The activities included launching the InfoTrade helpline operated by the specialists of the Trade Finance Office in Olsztyn. The direct contact between the clients and the teams servicing their transactions will considerably simplify and speed up the clarification of current operational issues. Consequently, the level of customer satisfaction from the service will increase further.

In the first half of 2010 the Bank sponsored the conference of Polish Corporate Treasurers Association (PCTA), presenting selected solutions of structured trade finance.

- 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 the first half of 2010 the Bank established further its 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.). 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); organized by BondSpot S.A.

In the first half of 2010 the Bank 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 through the working teams established at the Polish Bank Association.

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 30 June 2010 the Bank serviced 13,639 securities accounts.

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

- AMPLICO OFE,
- AVIVAOFE AVIVA BZ WBK ,

- Generali OFE,
- ING OFE,
- OFE Pocztylion,
- Pekao OFE,
- Nordea OFE

and two Employee Pension Funds:

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

The Bank also acted as the depositary of investment funds and subfunds, 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 SA.

3.3 Treasury

The Bank offers a wide range of foreign exchange products and services addressed to non-bank clients. Opportunities of investment of currency surpluses and managing the currency position, offered by the Bank, meet the expectations of the clients in this area. In the first half of 2010 the Bank maintained its position in the market of foreign exchange with corporate clients.

Particularly noteworthy here is the CitiFX Pulse internet platform It is an advanced tool that enables internet-based FX trading at market prices . The clients using the platform can execute transactions at their convenience; in a rapid and secure way. The number of clients using the CitiFX Pulse is still growing. In the first half of 2010 the Bank recorded growth of revenue from FX transactions via the platform by 70% compared to the first half of 2009.

3.4 Commercial Bank

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.

The table below presents balances of assets and liabilities in the particular segments in the management view.

Assets

PLN million	**30.06.2010**	**31.12.2009**	**30.06.2009**	**Change (1)/(2)**		**Change (1)/(3)**	
	(1)	**(2)**	**(3)**	**Amount**	**%**	**Amount**	**%**
Total Commercial Bank	**6,761**	**7,148**	**8,558**	**(387)**	**(5%)**	**(1,797)**	**(21%)**

PLN million	30.06.2010	31.12.2009	30.06.2009	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	Amount	%	Amount	%
including:							
MMEs and SMEs	864	869	1,045	(4)	0%	(180)	(17%)
Large enterprises	697	651	692	46	7%	5	1%
Public sector	94	104	91	(10)	(10%)	3	3%
Global Clients	2,572	2,334	3,051	238	10%	(479)	(16%)
Strategic Clients	1,412	1,887	2,113	(475)	(25%)	(702)	(33%)

Liabilities

PLN million	30.06.2010	31.12.2009	30.06.2009	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	Amount	%	Amount	%
Total Commercial Bank	**16,283**	**16,515**	**17,158**	**(232)**	**(1%)**	**(875)**	**(5%)**
including:							
MMEs and SMEs	1,943	2,149	2,020	(206)	(10%)	(77)	(4%)
Large enterprises	725	763	817	(39)	(5%)	(92)	(11%)
Public sector	1,934	2,989	2,043	(1,055)	(35%)	(109)	(5%)
Global Clients	7,326	8,186	7,583	(860)	(11%)	(256)	(3%)
Strategic Clients	4,040	2,289	4,502	1,751	77%	(461)	(10%)

3.4.1 Key initiatives in the Global Clients Segment

The first half of 2010 saw a growth in the value of loans granted and a growth in the clients' current account balances. The global clients continued to be interested in factoring transactions, in particular financing of suppliers to international corporations.

The Bank arranged a several hundred million worth of working capital financing to a client from the consumer industry, coupled with simultaneous acquisition of the client. The volume of transactions in custody of securities grew significantly. Large, several million worth of lease transaction was an undisputable success, which will additionally strengthen the current relations between the client and the Bank. The Bank entered into relations with several new significant clients who contributed to the already strong Global Clients Segment of the Bank. In the second quarter of 2010 key Equity Capital Market (ECM) transactions were financed in cooperation with Dom Maklerski Banku Handlowego S.A. and several other significant transactions were won.

3.4.2 Key initiatives in the Strategic Clients Segment

The first half of 2010 was definitely a good start of the year for the Strategic Clients Segment, mainly due to transactions executed by Dom Maklerski Banku Handlowego S.A.: accelerated capital issues in the commodity and energy sectors and due to a capital transaction completed in collaboration with Citi London.

By strengthening its relations with Strategic Clients in the first half of 2010 and expanding the offer of investment banking products, in collaboration with its clients the Bank managed to develop a long list of potential credit and capital transactions that it will execute in 2010 and 2011.

3.4.3 Key initiatives in the Middle Market Enterprises, Small and Medium Enterprises and Public Sector Segments

The new Act on Public Finance caused uncertainty about relations with commercial banks among some public finance entities. In consequence, their cooperation with the Bank was less intensive. However, despite the effect of the new Act on Public Finance, in the first half of 2010 the Bank entered into relations with new public sector entities, including common courts under the MicroAccount product while balances in deposits of public sector entities remained stable. On the other hand, the act allowed the Bank to revive the investment account product in the public finance market.

A large municipal bond issue for the city of Warsaw, worth 300 million, was an unquestionable success, as was launching the CitiFactoring (activating) campaign for the clients. The campaign is compliant with the strategy which goal is to broaden relatioships with SME customers.

Additionally, in the first half of 2010 two activation campaigns were launched. They were aimed at both the present and potential clients of the Bank. The first campaign focuses on working capital, while the second one on higher current account interest rate and lower bank transfer charges.

3.5 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 the first half of 2010 DMBH acted as an intermediary in 15.3% of secondary equities trading transactions. Over the period the value of equity trades executed via DMBH on WSE reached PLN 34.6 billion (growth of 85.2% compared to equivalent period of 2009) while trading over the entire WSE market increased by 52.2% compared to equivalent period of 2009.

Because of a large exposure of the DMBH to institutional and foreign investors, the activity of clients from these segments is a key factor influencing the DMBH's business. The listing of new significant market value companies on the main floor considerably increases foreign investors' interest in the WSE. This fact may be of crucial influence on the growth of trade generated by the clients from this segment, which in turn may be positively reflected in the DMBH market share. Another external factor that positively influences the DMBH business is the level of capital inflow into domestic equity funds, which translates into increased activity of domestic financial entities.

The number of brokerage accounts with the DMBH at the end of the first half of 2010 was 8,263 compared to 10,423 at the end of the first half of 2009, which was connected with closing inactive client accounts, mainly in January 2010. Increases in the number of account were recorded in all the months of the second quarter of 2010, especially in April (PZU S.A. public offering) and in June (TAURON Polska Energia S.A. public offering).

At the end of the first half of 2010 the DMBH was the Market Maker for 34 companies, which is 9.44% of all the shares listed on the WSE. Additionally, the Own Investments Section acts as the Market Maker for futures contracts for the WIG20 index and the Mw20 index units. The DMBH as a Market Maker is one of the leading of brokerage houses as far as the number of companies and turnover value are concerned.

In the first half of 2010 the DMBH carried out the following offerings:

- the accelerated offering of shares of KGHM Polska Miedź S.A., with value of PLN 2,060 million, executed in January 2010; the DMBH acted as a Co-Bookrunner,
- the accelerated offering of shares of Grupa Lotos S.A., with the value of PLN 406 million, executed in January 2010; the DMBH acted as a Co-Bookrunner,
- the secondary trading of shares of ENEA S.A. with the value of PLN 1,133 million, executed in February 2010; the DMBH acted as a Co-Underwriter,
- the public offering of the city of Warsaw municipal bonds series 2 (February 2010), series 3 (April 2010) and series 4 (May 2010), of the total nominal value of PLN 900 million, the DMBH acted as a Co-Underwriter,

- the accelerated offering of PLN 42 million Azoty Tarnów S.A. shares, conducted in April 2010; the DMBH acted as a Co-Bookrunner,

- the public call for 100% shares of Atlas Estates Limited, announced in April 2010 and finished in June 2010, with the announced value of PLN 125 million; the DMBH acted as an intermediary for the call.

In the first half of 2010 Dom Maklerski Banku Handlowego S.A. also participated in the following transactions to be completed in the third quarter of 2010:

- the public call for 100% shares of Nepentes S.A., announced in May 2010 with the completion planned for August 2010, the announced value of PLN 450 million; the DMBH acted as an intermediary for the call,
- the public offering of the B series Investment Certificates of Legg Mason Akcji Skoncentrowany FIZ, commenced in June 2010 with the completion planned for July 2010, with the announced value of PLN 124 million; the DMBH acted as the Underwriter.

Summary Income Statement and Balance Sheet*

Company name	Headquartered	Participation interest of the Bank in equity.	Balance sheet total as at 30.06.2010	Equity as at 30.06.2010	Net financial result for H1 2010
		%	PLN ‘000	PLN ‘000	PLN ‘000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	631,398	95,544	12,169

**stand-alone data, unaudited during the year*

3.6 Leasing

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

The value of leases contracted in the first half of 2010 stood at PLN 71.5 million. Compared to PLN 142.7 million of new contracts signed in the first half of 2009 a 50% decline was recorded.

The structure of assets leased in the first half of 2010 was as follows:

- the share of heavy transport vehicles was 51% of total financed movables;
- machinery and equipment constituted 49% of total financed fixed assets.

Net asset value of leases

PLN million	**H1 2010**	**H1 2009**	**Change PLN million**	**%**
Value of leases contracted in the period:	71.45	142.74	(71.29)	(50%)
- for vehicles	36.67	56.38	(19.71)	(35%)
- for machinery and equipment	34.78	86.36	(51.58)	(60%)

In the first half of 2010 the Company continued actions to increase lease sales through the banking network by activating account managers. The competition launched by the Company produced the winners – the best leasing salespersons among the account managers. The main task in this period was also increasing and strengthening the recognition of the Handlowy-Leasing brand among the Bank’s clients.

The first half of 2010 was also a period of intensive work on developing its offer directed at all client groups of the Bank. A marketing campaign for consumer bank clients was initiated (the Micro segment) with the aim of opening bank accounts for former clients of the Company.

The objectives for the second half of the year continue to be fostering the quality of the credit portfolio by adjusting the risk for new transactions appropriately to the changing economic conditions and maintaining strict discipline in management of the credit portfolio while consistently minimizing costs associated with delinquent debt provisioning.

The company also seeks new opportunities to fully use its sales force. Account managers, apart from leasing offer, present to the clients the broad offer of the Bank and foster cooperation through opening accounts with the Bank.

Summary Income Statement and Balance Sheet*

Company name	Headquartered	Participation interest of the Bank in equity	Balance sheet total as at 30.06.2010	Equity as at 30.06.2010	Net financial result for H1 2010
		%	PLN ‘000 ‘000	PLN ‘000	PLN
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	1,039,661	160,102	1,916

**stand-alone data, unaudited during the year*

4. Retail Banking

4.1 Summary segmental results

PLN ‘000	**H1 2010**	**H1 2009**	**Change PLN ‘000**	**Change %**
Net interest income	395,352	388,177	7,175	2%
Net fee and commission income	167,999	141,600	26,399	19%
Dividend income	3,141	2,736	405	15%
Net income on traded financial instruments and revaluation	13,647	20,493	(6,846)	(33%)
Net gain on investment equity instruments	2,239	-	2,239	-
Net other operating income	(18,772)	(4,420)	(14,352)	(325%)
Total income	**563,606**	**548,586**	**15,020**	**3%**
General administrative expenses and depreciation	(361,289)	(396,354)	35,065	9%
Profit / (loss) on sale of tangible fixed assets	(118)	548	(666)	(122%)
Net impairment losses	(159,678)	(102,052)	(57,626)	(56%)
Profit before tax	**42,521**	**50,728**	**(8,207)**	**(16%)**
Cost / Income	**64%**	**72%**		

The main factors that determined the gross profit of Consumer Bank in the first half of 2010 as compared to the corresponding period of 2009:

- Increase in net interest income mainly through improvement in interest income driven mainly by credit cards resulted from higher average level of receivables;
- Increase in fee and commission income resulting mainly from higher income on payment and credit cards as well as lower cards acquisition expenses;
- Decrease of expenses as a result of continuation of the optimization process in the scope of branch network, infrastructure and technology;
- The higher net impairment losses were caused by quality’s deterioration of the consumer loans portfolio and credits cards;

4.2 Credit cards

The total portfolio of credit cards as at the end of the first half of 2010 amounted to 952 thousand. The Bank introduced numerous changes to the installment plans offered within the credit card (e.g. the Comfort Installment Repayment Plan). Client segmenting for installment products was modified, the sales strategy was changed and the product offer was extended by the possibility of cash transfer from the credit card which is later divided into installments with attractive interest. The offer is directed at clients characterized by low risk levels who use their credit line only to a small extent.

Following the changes temporary special offers for Comfort Installment Repayment Plan were introduced and marketing campaigns were conducted with the slogans of “Turn on a green light to your needs!” and “Buy now – pay later”. Additionally, the Bank enabled the clients using the Comfort Installment Repayment Plan to extend the Plan already chosen by an additional cash transfer from the Card and to consolidate it with the installment plan.

The Bank continues selling cards in the biggest Polish Shopping Centers and airports. Currently the Bank sells its credit cards in 5 airports and in 7 shopping centers in Poland.

A new Citibank-BP Automobile Credit Card was introduced within the PAYBACK Program. Its holders can now collect points for non-cash transactions with the card for purchases at BP petrol stations and with many other PAYBACK Program partners.

Additional insurance, “The Travel Package” service, was made available to Citibank Credit Card holders in June. The insurance covers mainly the costs of health care service when travelling abroad, car assistance and travel assistance.

The Rebates and Discounts Program for Citibank Credit Cards is growing rapidly and at the end of the first half of 2010 the program covered almost 4500 trade and service outlets in Poland.

In the first half of 2010 a number of campaigns promoting credit card use were conducted. The following special offers were introduced: “Winter Campaign”, “Beauty & Spa”, “3% Discount in the Easter Basket”, “Draw the Discount Teddy”, “Pay Your Bills with the Citibank Credit Card and Win” and “Go Shopping with the Card and Win iPad for Holiday”.

4.3 Consumer bank

4.3.1 Bank accounts

The number of bank accounts grew to 746 thousand in the first half of 2010 from 654 thousand in the second quarter of 2009, which is 14% increase YOY. The number of 746 thousand includes savings accounts.

In January 2010, in accordance with the “Recommendation for Best Practice in Moving Current Accounts”, prepared by the Polish Bank Association, the Bank launched the service “Account Mobility”. The purpose of the service is to facilitate the change of a bank by a consumer in the Polish banking market.

Starting March 2010 the Bank expanded its offer of debit cards for personal account holders with a new MasterCard PayPass card. The new card is equipped with a chip and has PayPass payment function. The chip secures data encoded in the card against theft; therefore, transactions made with the card satisfy top security standards. Additionally, the PayPass technology allows for faster and more convenient non-cash transactions, just by bringing the card close to a reader in a sales point. On 4 May 2010 the Bank launched a new marketing campaign to promote the new solution. Clients who replaced their previous card with the new one and made transactions in trade and service outlets could win 8 trips to New York and 400 cameras.

On 1 June 2010 the Bank introduced promotional offers for two accounts – the internet account and the account for clients preferring traditional service. The promotions offer very attractive pricing conditions, for example all cash withdrawals from all ATMs in Poland are free of charge. The offer is supported by an internet and billboard marketing campaign throughout Poland.

In the second quarter the Bank also continued its special offer of individual accounts for Citibank Credit Card holders. The clients holding the Citibank Credit Card were offered the annual charge exempt if they decided to transfer their remuneration to the Citi Handlowy individual account.

In June the Bank offered a unique promotion of the Medical Package to the present and new clients. The clients who start to transfer at least PLN 1500 monthly to the Bank will be able to use option 1 of the Medical Package free of charge. The option provides unlimited access to 5 specialist doctors. The promotion will continue until the end of June 2011.

4.3.2 Credit Products

Cash loan

In the first half of 2010 the Bank continued activities aimed at execution of the Bank's strategy in the area of service and offer for particular client segments. Between February and May the Bank introduced special loan offers for the Blue and Citigold segments which consisted mainly in modifications to the product price-list.

Active clients from the Blue segment who maintain a specified level of deposit-loan relation with the Bank may use the "Premium for Banking" program, within which the interest on cash loan is lowered depending on the client's balance on the products already used. Since May the Citigold clients may use the attractive pricing offer with additional benefits for clients actively cooperating with the Bank as far as deposit products are concerned.

Between February and April 2010, in response to its clients' needs, the Bank conducted another edition of the promotional campaign "The More You Consolidate, the More You Gain". Clients consolidating liabilities incurred with other banks with a Cash Loan received a more attractive price for the loan. Depending on the consolidated amount a client could reduce the interest on the loan by up to 2.5 percentage points, and for consolidated amounts exceeding PLN 40,000, the up-front fee was additionally reduced by 1 percentage point. The campaign received marketing support in the form of an Internet campaign, leaflets and posters in outlets of the Bank as well as promotional communication targeted at selected clients of the Bank, based on such channels as SMS and IVR.

At the end of the second quarter a program directed at the best clients using the cash loan was introduced. Its aim was to encourage the clients to deepen their credit relation with the Bank by increasing the size of the loan under very attractive conditions. The offer was constructed as follows: the fewer months were left to the termination of the client's current loan contract, the more attractive the pricing conditions became.

Credit Line

In the first half of 2010 clients could make use of two offers of increasing the Credit Line limit. The requirement was for the client to send back a signed annex to the Credit Agreement to the Bank. Due to its simplified procedure the offer proved to be very popular with the clients.

Additionally, in the first half the Bank developed the sale of the Credit Line product through the telephone channel. Personal account holders who receive their wages to the account may apply by telephone and receive an overdraft with no need to visit the branch.
Clients can still benefit from the unique feature offered by the Citibank Credit Line which consists in not charging interest on withdrawn credit line funds for every 7 days of each calendar month.

Mortgage Products

In March 2010 all branches started the "Special Offer 3x PLN 0", which consisted in exempting clients from:

- a Housing Loan or Mortgage Loan origination fee;
- a fee for real estate assessment;
- a fee for registering mortgage with the mortgage and land register.

In connection with considerable interest and growing number of applications the offer was prolonged until the end of May. The Bank conducted an analysis of the market pricing conditions and decided to lower the margins for Housing Loan and Mortgage Loan by 0.1-0.2%. New distribution channels were introduced to support sales: local financial brokers and real-estate agencies. The cooperation with those entities helped to disseminate information on the Citi Handlowy mortgage offer throughout a wider group of clients.

4.3.3 Investment and insurance products

- Investment Products

In the first half of 2010 the Bank developed its offer of investment products:

Structured Bonds

In the first half of 2010 the Bank carried out 14 structured bond subscriptions aimed at the Citigold and Citigold Select clients. The structured bonds were denominated in PLN (9 subscriptions), USD (4 subscriptions) and GBP (1 subscription). The offers were directed both at clients who were seeking products with fixed coupon (4%-4.5% p.a. for bonds denominated in USD or GBP) and at those who were seeking indirect exposure to the equity market with conditional invested capital protection by the Issuer at the date of maturity.

Investment Life Insurance

In the first half of 2010 the Bank, in collaboration with Metlife, carried out a subscription for individual investment life insurance related to the WIG20 index of the largest Polish public companies. The insurance gives the opportunity to gain a premium from a potential growth in share prices of the 20 largest Polish listed companies and at the same time provides the client with life and endowment insurance protection and a guarantee of returning 100% of paid premiums at the end of the period of coverage.

The Bank also signed an agent contract with the PZU, the largest Polish insurer, under which by the end of 2011 the Bank will carry out 8 subscriptions of individual investment life insurance, with insurance cover provided by the PZU.

Investment Funds

In the first half of 2010 the process of sales of investment funds in the Bank was significantly simplified due to the implementation of a new order-processing application. Implementation of that application is connected with numerous document processing facilities and reduces the risk of errors made when filling in forms.

Additionally, the Bank introduced 9 new funds of Schroders and Franklin Templeton (PLN – hedged).

A new offer was prepared for new Bank clients that makes it possible to purchase shares of domestic and foreign investment funds with a significantly discounted processing fee.

Bank Securities

The Bank introduced a new structured product to its offer – the Bank Securities. In the first subscription the Bank offered an 18-month product with payment based on the EUR/PLN currency pair. Within the product the clients have the opportunity to achieve a premium depending on how much PLN will strengthen against EUR. Bank Securities guarantee 100% protection of invested capital on maturity and are guaranteed by the Bank Guarantee Fund.

Brokerage Services

The first half of 2010 was a period of development and promotion of brokerage services provided by the Bank and the DMBH. Information and promotion campaigns were directed mainly at the present clients of the Bank. A special offer was prepared for the clients, under which the commission on operations via the DMBH internet service was lowered in the promotional first three-month period – from the standard 0.38% to 0.20%. Additionally, the clients who decided to transfer their securities to the account opened through the Bank were reimbursed the cost of this operation in the form of reimbursed commission on orders placed in the new account.

The Bank's clients used brokerage services actively during the two large public offerings of the companies being privatized: PZU and TAURON. The presence of brokerage services in the Bank's offer was viewed positively by the clients, which was reflected by a large number of orders placed.

The information activities and capital market events supporting the acquisition of new clients led to a significant growth of the number of new clients. In the first half of 2010 the Bank acquired nearly two times more clients than in the whole of 2009 while as many as 72% on opened brokerage accounts are active. This strongly improved the total portfolio structure of the clients using brokerage services offered by the Bank and the DMBH. Currently over 43% of brokerage accounts are active, which is a much higher ratio than the market average.

- Insurance Products

In the first half of 2010 the Bank continued to develop its insurance offer regarding different kinds of insurance products. The changes were aimed both at extending the current product range and at making the present products more attractive.

Income Protection Plan

In March 2010 the Bank introduced a new insurance product to its offer, available for credit card holders – Income Protection Plan, providing insurance coverage in the case of loss of a job or serious illness and incapacity to work. The insurance provides clients i.a. with benefits up to PLN 1,500 a month in the period after loss of a job or up to PLN 1,000 a month in the case of temporary incapacity to work. The product is offered in cooperation with an insurer – CARDIF Assurances Risques Divers S.A. Branch in Poland. The insurance is offered under telephone sale in outgoing campaigns targeted at credit card holders.

The new offer of life insurance coupled with insurance capital funds

In April 2010 the Bank modified its offer of life insurance combined with capital funds. The changes consisted in introducing a new version of products with a regular payment (Optimum Investment Plan) and with a single payment (Premium Investment Portfolio). The products are offered in collaboration with Aegon TUnŻ S.A. insurance company.

Both products include:

- an attractive payment structure – more advantageous terms for higher payment sums: lower management fee, unlimited value of transfers between funds without additional fees, lower administrative fee (for the regular payment product),
- 100% of payment allocation, without up-front fees,
- broad investment possibilities through 49 insurance capital funds which allow to invest funds and maintain diversification in relation to the sectors, asset classes and regions (including the so-called PLN-hedged funds, which allow to invest in PLN without the currency risk),
- flexibility through available product variants, e.g. different minimum periods for regular payment, different levels of insurance coverage,
- insurance coverage in case of death.

Insurance Policy for a Good Start

In June the Bank's offer was broadened by a new coverage-savings insurance, the "Insurance Policy for a Good Start", which is a product that provides financial security for children. The insurance is offered with a single or regular payment. The insurer is MetLife TUŻ S.A.

The product offers:

- financial security for the child – during the life of the contract and on its termination, when the child starts their own life,
- a guaranteed payment to the child on termination of the contract with the potential of participation in profit,
- taking over regular payments by the Insurer – saving continues in the case of death of the parent/guardian or in the case of their inability to work or serious illness,
- additional regular benefits for the child – during the life of the contract in the form of monthly payments (allowance) in the case of the death of the insurance holder.
- flexibility of the product and the possibility of introducing additional variants of insurance cover.

Travel Insurance

In June the Bank introduced a new product for credit card holders – the Travel Insurance. The insurance is offered as an option and covers the primary card Holder and is valid for any trip up to 60 days long. The Insurer is Europe Assistance Holding Ltd.

Depending on the type of the card, the offer includes:

- for the Citibank-LOT cards: travel insurance valid outside Poland, all over the world (The World Travel Package),
- for other cards, other than the LOT (Europe Travel Package):
    - travel insurance valid outside Poland, in Europe,
    - car assistance valid when travelling in Poland and in Europe (towing, repair on site, fuel delivery, replacement car, etc.)

The change in the Safe Installments insurance for cash loans

The new variant provides insurance cover for the first three years of the loan and is available only for loans taken out for 5 years or more. This variant is designed mainly for those clients who – already on the date of taking out the loan – plan to repay the loan earlier (or wish to secure the payments only in the initial period, when the debt is the highest).

The insurance coverage and annual fee remain unchanged. The previous Safe Installments insurance variant with all the loan period covered is still offered.

5. Achievements of respective distribution channels

5.1 Branch network

At the end of the first half of 2010 the Bank's branch network consisted of 158 outlets, including outlets of the L type (former Commercial Bank CitiGold Wealth Management outlets and the Investment Center), the M type (former multifunctional outlets) and the S type (former CitiFinancial branches).

In the first half of 2010 the Bank continued to optimize its branch network. The process contributed to increased operational efficiency, improved sales, optimized use of human resources and infrastructure, and rationalization of the Bank's property management costs.

The branch network optimization in the first half of 2010 included the following:

- in consequence of a property sale decision, full operational activity of the following L type outlets were moved:
  - in Płock, from ul. Kobylińskiego 13 to the existing outlet at ul. Królewiecka 22,
  - in Szczecin, from z ul. Św. Ducha 2 to the existing, expanded outlet at pl. Rodła 8,
- full operational activity of an L type outlet was consolidated and moved from ul. Piłsudskiego 63 to the existing, expanded outlet at ul. Pieniężnego 15 in Olsztyn,
- full operational activity of an L type outlet was consolidated and moved from ul. Tołstoja 2 to the existing outlet at ul. Rynek 20 in Świdnica,
- 21 branches were consolidated, earlier functioning mainly under the CitiFinancial branch. Those activities consisted in moving the outlets' operational activity to the existing multifunctional outlets with the full range of products,
- the scope of consumer deposit service was extended in one S type outlet, currently an M type,
- the operational activity of an L type outlet at ul. Barlickiego 3 in Kutno was terminated.

Meanwhile it is worth noting that retail banking is consistently strengthening its presence in the market through non-standard sales channels. The examples of such actions are bank stands in franchise outlets of Polkomtel, the mobile network operator, independent stands in 5 domestic airports or stands in 7 shopping centers, where customers can apply for a credit card. The Bank's retail clients can check the balance of their accounts or withdraw cash free of charge using Euronet ATMs located all over the country. In order to support communicating these functionalities to the customers, the Bank signed an agreement with the Euronet ATM network under which almost 1000 independent ATMs of this network were branded with the Citi Handlowy logo.

Number of branches at the end of the period

	H1 2010	H1 2009	Change
Number of outlets:	**158**	**237**	**(79)**
- L type	43	48	(5)
- M type	90	70	+20
- S type	25	84	(59)
- T type	-	35	(35)
Other sales / customer service outlets:			
Polkomtel sales points	71	34	+37
Airports	5	-	+5
BP petrol stations	5	182	(177)
Shopping malls	7	-	+7
Number of own ATMs	154	163	(9)
"Euronet" ATMs with logo of "Citi Handlowy"	789	-	789
"Unikasa" – advanced functionality	450	-	450

Perspectives for development (network optimizing)

In the perspective of development, in 2010 the Bank will continue to work to ensure adequate level of customer service. At the same time it will react to changes taking place in the market.

In accordance with the assumed strategy, in 2010 all branches in G9 markets (biggest towns in the country, strategic from the point of view of development of consumer banking) and Tier 1 (another group of markets, important from the profitability point of view) the Bank will continue its "Citi Grow" program aimed at standardization of sales quality and customer service. The network of bank outlets will be actively supported by remote customer service channels (CitiPhone, internet platform, TeleSales), providing 24h transaction services and sales of banking services tailored to customer needs.

Further outlets will be adapted to expanded consumer deposit taking services. The Bank will also extend the branch network by new outlets on G9 markets.

5.2 Internet and telephone banking

Internet

The first half of 2010 marked a period of dynamic development of electronic service channels – both Citibank Online e-banking and the new Citi Mobile platform.

Continuing its policy of tailoring the internet platform to its clients' needs, the Bank carried out two major implementations of new functionality, of which the most important was providing the eInvoice functionality, i.e. delivering the electronic versions of bills and invoices directly to the transaction system.

All the activities connected with the development of e-banking made it possible to achieve the following results by the end of the first half of 2010:

- 58% of the Bank's clients registered with the e-banking service; the number grew by 12 percentage points compared to the end of 2009.
- 47% of the Bank's clients use the electronic statement of the account or credit card; the number grew by 5 percentage points compared to the end of 2009.

Apart from strong focus on the development of electronic services and their promotion among the existing clients, the Bank concentrated on development of electronic communication methods. The wealthy client internet service at www.citigold.pl was completely revised. The website was face-lifted visually, but primarily it was updated from the communication perspective.

Additionally, the Bank became involved in activities connected with internet social media, developing yet another channel of indirect customer communication.

The crowning achievement of the Bank's efforts in the internet banking area was the first place in a ranking of internet banks prepared by Miesięcznik Finansowy BANK, published by the Polish Bank Association.

Citi Phone

In the first half of 2010 the CitiPhone 24h customer service team satisfied the assumed quality standards for customer telephone services and the telephone service factor (TSF) was 81,1%.

In March 2010 the CitiPhone 24h customer service team was again among the winners of the bi-annual competition for the best CitiGroup call center in the EMEA Region and received the EMEA Bi-Annual CitiPhone Award.

5.3 Indirect and direct customer acquisition

The first half of 2010 was a period of strengthening cooperation of the Citibank At Work Office with corporate clients of the Bank by offering tailored retail products to employees of those companies. The leading product was the personal account. Its offer made it possible to acquire over 1,500 clients of regular remuneration inflow, and the total acquisition exceeded 7,500 products.

Within the ongoing project of financial seminars during six months the dedicated Team expanded to five trainers, which made it possible to organize over 260 meetings with company employees, with the participation of over 3,000 people. The presentations and seminars are carried out within four subject modules dealing with safe savings, sensible use of credit products, investing in accordance with one's needs and financial security at retirement age.

In connection with a dynamic development of the network in March 2010 a decision was taken to create a new, dedicated sales structure designed to support and develop sales of bank products through innovative franchise channels. The first half of the year brought about finalization of agreements with the partners of Polkomtel, the owner of the Plus GSM brand, due to which the network grew to about 160 Plus GSM sales outlets. At the same time, in consequence of mPunkt company terminating the contract with Polkomtel S.A. the credit card sales network decreased by 100 service outlets. The reaction to the changes was a decision to dispose of the external structure that so far had supported sales in the Polkomtel channel, which resulted in significant savings. Simultaneously, the growing efficiency of operation led to growth of sales.

The Bank has continued the project of selling credit cards in airports. Due to a successful sale of credit cards in the Okęcie Airport last year, the sale was expanded to the airports in Krakow Katowice, Poznań, Gdańsk and Wrocław in the first half of 2010.
Airports are also an excellent base for acquisition of deposit clients.
In June 2010 a new product, "The Travel Package", was added to the offer directed at clients acquired in airports.

Near the end of the first half of 2010 the Direct Sale Agencies started the sale of personal accounts.

6. Changes in information technology

The aim of the changes in the IT area was to implement functional, effective and safe solutions compliant with new technology standards, product requirements, changing regulatory environment and most of all long-term strategy of the Bank.

In the first half of 2010, the Bank launched technology projects supporting our new strategy. We also continued various initiatives to cut costs in the area of technology while improving the quality of the products offered.

All IT projects were carried out in accordance with the priorities of the long-term business strategy.

During the first half of 2010, we implemented solutions supporting the strategy of the Bank, contributing to the development of modern product range, improving quality and competitive advantage of the products offered and reducing costs:

- Launch of a new internet communication channel in the electronic banking system for corporate clients (e-Orders), thus adding electronic signature to our offering,
- Launch of a new electronic banking system for corporate clients to increase customer satisfaction and improve its competitive position in this area,
- Implementation of the Focus module (for the purposes of the Olsztyn Regional Clearing Centre) to automate management of costs of foreign transactions for corporate clients,
- Enabling repayment of credit card debts through Unikasa,
- Changes in FCOC to reduce operating losses and to automate the process of accepting customer orders related to investment funds in Branch Offices and sending them to Transfer Agents,
- Introducing the possibility to make immediate decisions on loan applications and issue chip cards in Branch Offices based on the agreement with CardService Sp. z o.o.,
- Efficient transfer of the support of the TPII system for ATMs to an external company NextSoft in order to reduce the maintenance costs of the system,
- Further modification of the ECS+ (Enhanced Card System) platform for credit cards to comply with regulatory and business requirements,
- Improvement of the CRM platform to enhance sales process,
- Introducing the innovative Mobile Banking, which allows retail customers to access their current accounts and credit cards via mobile phones: customers are able to view their account balances, make bank transfers, open deposits and check exchange rates,

- modernization of business applications in line with the new IT infrastructure standards (Windows XP/Vista, MS SQL, Java, HP OVCM etc.),
- Expanding the voice recording service at the Bank's Branches and centralization of the NICE recording system,
- reducing the costs of telecommunication infrastructure of the Bank by over PLN 500 thousand per year through renegotiation of agreements with all providers of Wide Area Network (WAN),
- successful migration of the Bank's international WAN connections to the MPLS technology with the 250Mbps band.

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

- implementing a platform for corporate clients to offer trade finance and documentary products,
- implementing a Business Process Management system to model business processes and improve electronic processing of documents within such processes,
- adjusting to new reporting requirements of the Bank Guarantee Fund,
- consolidating CRM applications for corporate clients to improve customer relations and reduce costs of customer support,
- introducing a new type of ATMs for real-time booking of deposits,
- implementation of a new generation segmentation of retail customers,
- developing the offering for proximity cards for individual customers,
- introducing major improvements in the internet platform for better retail customer service, new graphic design and possibility to open deposits online, and improving the work with the sales support system,
- continuation of the expansion of the NICE Perform system in Poland – a new voice recording technology allowing for central recording of calls using the IPT technology; improving accessibility of voice recording services in the Bank's Branches,
- continuation of active support for the Branch Network consolidation project and various initiatives that focus on implementing the new strategy of the Bank.

7. Equity investments

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2010, the Capital Group of the Bank continued its earlier policy of equity investments. The guidelines for the strategic portfolio were: maximize profits over a long-term perspective, increase market share, develop cooperation with the Bank and expand the offering of the Capital Group, while the objectives for the investments intended for sale were: optimize results of capital transactions and minimize risk in the related areas.

7.1 Strategic investments portfolio

This portfolio includes companies that run their businesses within financial sector contributing to the Bank's result on operations, as well as companies for which the Bank expands its product offering and which bring prestige to the Bank's operations and strengthen its competitive position in the Polish market of financial services (Handlowy-Leasing Sp. z o.o., Dom Maklerski Banku Handlowego S.A.). Strategic companies also include infrastructure companies which are not controlled by the Bank, but are of strategic importance for the Bank due to their activities, such as Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange), Krajowa Izba Rozliczeniowa S.A. (National Clearing House) or Biuro Informacji Kredytowej S.A. (Credit Information Bureau).

In terms of strategic commitment to infrastructure companies, the Bank plans to maintain its stake and actively participate in working out strategic directions of their development within its voting rights. The overall aim of the Bank when exercising corporate governance over such companies is to maintain their development without affecting their business operations, which is taken advantage of by the Bank as well as other financial market participants.

7.2 Portfolio of investments intended for sale

Companies within this portfolio are those that are held by the Bank without a strategic aim, and include companies held by the Bank directly or indirectly (e.g. Pol-Mot Holding S.A.), and also special-purpose investment vehicles through which the Bank runs capital transactions (such as Handlowy Inwestycje Sp. z o.o.). Some of the companies intended for sale are restructured debts and were taken over by the Bank as part of debt for capital swap.

The strategic aims for the Bank with regard to such companies is to gradually reduce the Group commitment. It is assumed that the entities will be sold at the most suitable time, depending on the market situation. The portfolio of companies intended for sale locks capital without a predetermined rate of return. The Bank is not planning to do any new capital investments which would be sold later. However, the portfolio of companies intended for sale might be increased with additional exposure taken over by the Bank as part of debt for capital swap or acquired in the course of operating activities.

8. Other information about the Group

8.1 Rating

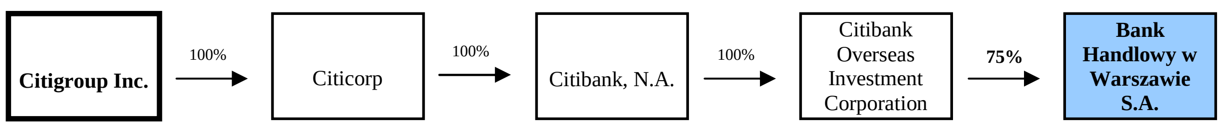
The Bank was rated by Moody's Investors Service (Moody's). During the first half of 2010, the ratings remained unchanged.

As at the end of the first six months of 2010, the following Moody's ratings were applicable:

Long-term local currency deposit rating	Baa1
Long-term foreign currency deposit rating	Baa1
Short-term local currency deposit rating	Prime-2
Short-term foreign currency deposit rating	Prime-2
Financial standing *Outlook on bank financial strength rating* *Outlook on long-term local currency deposit rating*	D+ *Negative* *Negative*

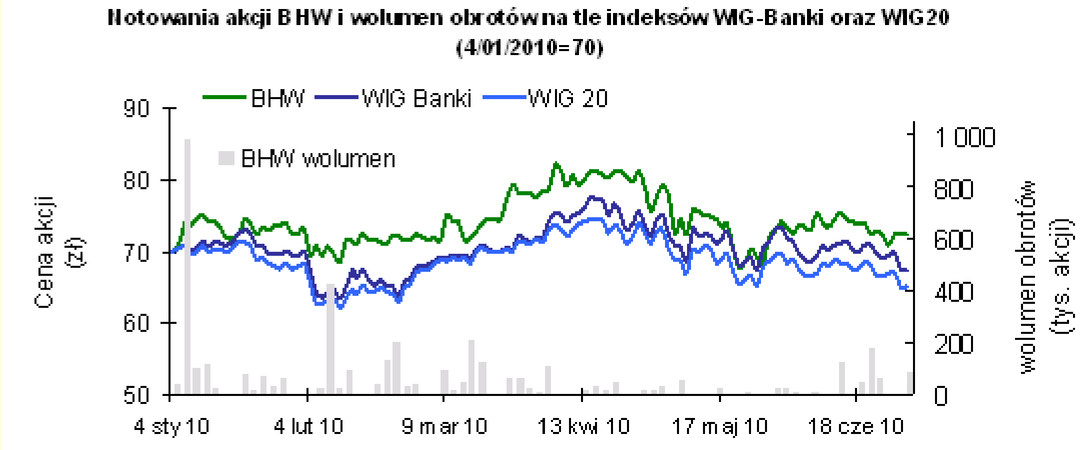
8.2 Bank's share listings in the Warsaw Stock Exchange

The only shareholder of the Bank that holds at least 5% of the authorized capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group focused on foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. Over 2009, the number of shares held by COIC as well as its share in the authorized capital and the total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively. The position of Bank Handlowy w Warszawie S.A. within the Citi Group structure is shown in the diagram below:



The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded as they are in the Warsaw Stock Exchange (WSE).

The price of one share of Bank Handlowy w Warszawie S.A. (BHW) as at the end of the first half of 2010 was PLN 70.3 increasing by 3.5% from PLN 67.9 at the beginning of 2010 and by 50% from PLN 47.5 at the end of the first half of 2009.



In the first half of 2010, BHW performed better than the WIG Banks and WIG20 indexes.
The share price is strictly correlated to the WIG Banks index and other main WSE indexes, such as WIG, WIG20 and mWIG40. Global fluctuations of US Citigroup share prices have relatively low impact on the price of BHW shares.

8.3 Awards and nominations

In 2010, the Bank, its brokerage house (Dom Maklerski Banku Handlowego S.A.) and the Kronenberg Foundation received a number of prestigious titles and awards:

- Dom Maklerski Banku Handlowego S.A. received two prestigious awards of the Chairman of the Warsaw Stock Exchange:

- Award for the Largest Share in Stock Trading in the Main Market in 2009 excluding Market Maker transactions, and

- Award for the Most Active Market Maker in the Main Market in 2009;

- Citi Faktoring, Self-Government Factoring and Discounted Letter of Credit were recognized in the 15th edition of the Europrodukt contest. The contest has been run since 2000 by Polskie Towarzystwo Handlowe Sp. z o.o. under the patronage of the Minister of Economy, Polish Enterprise Development Agency (PARP) and the Chancellery of the Prime Minister. The purpose is to promote brands, product and services that are considered best in the market and to recognize services that cater for the customer needs in a comprehensive and professional way;
- Citi Handlowy came first in the ranking of the prestigious financial magazine Euromoney. In terms of sale of products to corporate customers, Citi Handlowy's market share was 35.8%. The ranking is developed every year and includes the best companies offering cash management services. The position in the ranking was decided through customer voting as the customers reported the size of currency trading with their home banks;
- In January 2010, the Bank was awarded in the "Clean work" contest held by the Ministry of the Environment. The contest promotes best educational companies in the area of environment protection and is open both to companies and public institutions;
- The WWF, which organized An Hour for the Earth event, awarded Citi Handlowy with the official partner title – a unique recognition considering that fact that Poland was the only country in which Citi received such a title;

- Environment protection and education practices received 19 points out of the maximum 23 in the CSR Best Practice contest held by Deloitte, PKPP Lewiatan and NSZZ Solidarność;
- As an environmentally responsible financial institution, the Bank was ranked as first, winning 92 points out of the maximum 100 in the Responsible Company ranking prepared by PricewaterhouseCoopers;
- Citi Handlowy won the 2009 Benefactor of the Year award in the category of Strategic Corporate Social Responsibility Programs, which was awarded for its comprehensive and long-term strategy of financial education provided to the Polish society, carried out by the Kronenberg Foundation.

  The purpose of the Benefactor of the Year contest is to promote social involvement and social responsibility of entrepreneurs, as well as to inform of social actions and programs that have been carried out with the help of enterprises, their employees and NGOs. This is the most prestigious award for social involvement of business;
- On 17 May 2010, the Minister of Culture and National Heritage decorated the Kronenberg Foundation with the Order of Merit for Polish Culture ("Zasłużony dla Kultury Polskiej"), recognizing its contribution to the recovery of Wojciech Gerson's painting "The shepherd's concert" ("Odpoczynek w tatrzańskim szałasie") lost during World War II, and added to the collection of the Royal Castle in Warsaw. The Order is awarded by the Minister of Culture and National Heritage to remarkable persons or institutions creating, promoting or protecting the Polish cultural heritage.

8.4 Social responsibility

The social responsibility mission is carried out through the Kronenberg Foundation which acts on behalf of the Bank in support of work for the common good.
During the first half of 2010, the activities of the Foundation were focused on financial education, promotion of entrepreneurship and innovation and protection of the national cultural heritage.

Programs were carried out as follows:

***Od grosika do złotówki* (From groszes to zlotys)**
This is the first such program in Poland focused on financial education and targeted at primary school students, carried out with the help of Fundacja Młodzieżowej Przedsiębiorczości (the Polish chapter of Junior Achievement). The program is carried out by teachers and volunteer workers from the Bank, and supported by the parents. The purpose of the program is to help develop saving habits in children, build the sense of value based on work, make use of money and learn rational shopping. The program is directed to the 3rd formers and consists of two parts: first, for five days children participate in an interplanetary trip visiting planets such as Grosz, Purse, Piggy Bank, Toy and Zloty, learning how to tell the difference between coins and banknotes, and how to earn and store money, and learning about the influence of advertising and principles of rational shopping. The first part ends with one-day workshops on savings, called "Little wandering grosz" („Grosikowe wędrówki"). For the next two weeks, children work with their parents writing down all expenses. The second part is summed up with workshop at school where the children visit the Black Hole and find out reasons for losses of money as well as plan actions to prevent unnecessary spending.

In May 2010, a two-day seminar was held for the coaches participating in the project. At the beginning of the 2010/2011 school year, the participants will train the teachers in each province, who will run the program at school.
In June, the first part of the evaluation study will be held on a representative group of participating schoolchildren. The second part of the study will take place in the second half of the year and afterwards the evaluation report will be developed.
The "Grosikowy rebus" riddle contest was also organized, and was attended by 45 schoolchildren.

***Moje Finanse* (My Finance)**
This is the largest educational program in Poland devoted to economy, carried out with the National Bank of Poland and Fundacja Młodzieżowej Przedsiębiorczości. It is addressed to secondary school students. The program consists of five thematic modules: How to Like Banks, My Investments, Investment in Future, Safe Finance, and The World of Finance.

In the first half of 2010, the text and graphic layout of the materials distributed to participating teachers were updated. The focus was to adapt to the current situation in the personal finance market and to the readers' preferences. The Bank also developed the content of a series of training courses for teachers, which will be held in the second half of the year. The training will cover 1,650 teachers, who will receive the updated aids.

***Banki w Akcji* (Banks in Action)**
This is an economic education program designed for secondary school students who already have certain knowledge of finance and banking. This is a kind of management course, which allows schoolchildren to learn about and develop their knowledge of strategic management, analytical thinking and decision making – in other words, it develops a general knowledge of how the banking sector operates. The program is implemented by the Kronenberg Foundation and Fundacja Młodzieżowej Przedsiębiorczości.

During the first half of 2010, two parts of the program were implemented:

- **Banks in Action – Entrepreneurship Day w Akcji** – one such day in a year when secondary school students are invited to the Bank to see what the banker's work is about. The project is implemented as part of the all-Poland event Entrepreneurship Day.
  In 2010, the Entrepreneurship Day was held on 10 March. As many as 225 students had training at Citi Handlowy on that day.

- **Finance Knowledge Olympics – Banks in Action** – this event is organized in cooperation with the National Bank of Poland, Fundacja Młodzieżowej Przedsiębiorczości and eight Academies of Banking. The Olympics is officially recognized by the Ministry of Education and is targeted at secondary school students who have special interest in economy.
  During the first half of 2010, work on the 3rd edition of the Olympics began under the Personal Finance slogan. The actual games will take place in October, November and December 2010.

***Innowacje w Bankowości* (Innovation in Banking)**
This national contest organized by the Kronenberg Foundation and the Bank is designed for 2nd to 5th year students of all types of universities. Its purpose is to inspire young people to work out innovative business solutions. The contest is an opportunity to use knowledge and creative power of young people and boost their confidence about future career development.

Micro Company of the Year 2010
This contest was developed for micro company owners. Through the contest, the Foundation wants to promote active attitude to entrepreneurship, encourage people to establish their own businesses and use the best performers as examples.

The winner of the 6th edition of the contest awarded with the title of the Micro Company of the Year 2010 was Centrum Badań DNA from Poznań headed by Mr Jacek Wojciechowicz, which was nominated by the Office of the Marshall of the Wielkopolskie Province. The awarded company promotes latest achievements of molecular genetics in the market of medical diagnostic services, and develops new test methods and techniques.

The official ceremony was preceded with presentation of the results of the study "Success Factors of Micro Companies in Poland" conducted in May 2010 by the Kronenberg Foundation in cooperation with Microfinance Centre and Pentor RI; after the presentation, a discussion on the study was held.

Pilot Debtor Assistance Program
This is a new program designed by the Kronenberg Foundation in collaboration with the Union of Citizens Advice Bureaux. The main objective of the program is to prevent negative consequences of debt by expanding services of the Bureaux.
The project is targeted at three groups:

- People in debt who look for help to solve their financial problems;
- Counsels of the Citizens Advice Bureaux who want to provide knowledgeable assistance;
- Coaches of the Union of Citizens Advice Bureaux who will pass on new skills connected with helping the indebted.

As many as 27 Bureaux that reported an increase in debt-related advice in 2009 were selected to participate in the program.

Award of Bank Handlowy w Warszawie S.A. *for outstanding contribution to the development of economy and finance*
The award promotes the most valuable publications devoted to the theory of economy and finance. It is considered to be the most prestigious Polish recognition in the field of economy.

During the first half of 2010, preparations were made for the 16th edition of the Award contest, with the total of twenty entries received. Because of the death of Professor Leszek Zienowski, Professor Urszula Grzelońska was appointed the new Head of the Jury.

***Czas na młodych* (Time for Youth) contest**
To popularize the work of the laureate of the 15th edition of the Award of Bank Handlowy w Warszawie S.A., the Time for Your contest was developed. Its participants were asked to find a way to handle budget deficit. The contest results were announced on 18 March 2010 during a debate under the title "Public finance imbalance: is the debt a real threat or a future decade myth?", held at the Warsaw Economic University.

Professor Aleksander Gieysztor Award is the most prestigious award for the protection of the national cultural heritage. It is given annually to private individuals and institutions for:

- activities connected with institutions such as museums or libraries, for conservation and archiving of works of art,
- preserving and protecting Polish cultural heritage at home and abroad,
- initiatives aimed at collecting and protecting cultural heritage traces and memorabilia,
- promoting the awareness of the need for and methods of protection of the cultural heritage in Poland.

The winner of the 11th annual Award was Professor Andrzej Tomaszewski, who was recognized for his work in the field of Polish cultural heritage protection, and in particular for personal involvement in organizing Polish and German collaboration to protect the common heritage.

Presenting the Royal Castle in Warsaw with Wojciech Gerson's painting "The shepherd's concert"
On 1 June 2010, Sławomir S. Sikora, President of the Management Board of Bank Handlowy w Warszawie S.A., handed on behalf of Kronenberg Foundation the painting of Wojciech Gerson "The shepherd's concert" ("Odpoczynek w tatrzańskim szałasie") to Professor Andrzej Rottermund, Director of the Royal Castle in Warsaw.

This remarkable painting dates from 1862 and is considered one of the best works of Wojciech Gerson. It was owned by Leopold Kronenberg, the founder of Bank Handlowy w Warszawie S.A. Like many pieces from Kronenberg collection of Polish painting, the work was lost during World War II and was included in the registry of lost Polish works of art. However, after many years it was found on sale in Sotheby's at a London British and Continental Picture auction. Joint efforts of the Ministry of Culture and National Heritage as well as Polish diplomatic posts enabled the Foundation to negotiate with the South African owner of the picture and the final recovery. The painting was added to the collection of the Royal Castle in Warsaw on 1 June 2010.

Employee Volunteer Work Program is a project that aims at developing social involvement of the Bank employees. The main pillars of the program are: World Citi for Community Day, involving employees of the Bank in financial education or an innovative initiative of volunteer work during team building trips. Moreover, the employees may choose an option of an individual volunteer work or take part in the Santa Claus Assistant event. The staff provides help individually or in organized groups.

During the first half of 2010, a student contest "*Studencki Projekt Społeczny – Zostań Kreatorem Zmian*" was developed. It was directed to the Warsaw University students who were to develop a volunteer work concept project. The Bank received 21 contest entries and published the contest results on 16 June.

Volunteers from Citi Handlowy took part in 16 projects, including Chopin Open, the educational project helping children to learn about the works of Frederic Chopin, and the 8th finals of the "Cała Polska czyta dzieciom" ("Read to your kid") campaign.

In addition, the Foundation participates in the work of an inter-sector team to prepare celebration of the European Year of Volunteering 2011 in Poland, and since January 2010 the Foundation has been taking care of volunteering in Poland.

More trees thanks to you
This program is carried out by Citi Handlowy along with the Kronenberg Foundation and the Nasza Ziemia Foundation. Its purpose is to promote "green" habits and encourage Citi Handlowy clients to quit paper account or credit card statements and shift to electronic ones. As part of the program Citi Handlowy planted one tree on behalf of each customer who decided to switch to electronic statements.

More and more customers decide not to receive paper account statements. On behalf of each customer who decided to switch to electronic statements in 2009, Citi Handlowy planted 141,000 trees in spring 2010. During the educational part of the program, 3 tree planting workshops were held for students from Warsaw schools.

On 17 June, the 3rd edition of the event was summed up. In Chojnowskie forests, Citi Handlowy volunteers built fencing around oak tree nursery, and the participating middle school students cleaned the forest and took part in educational activities.

Grant Program is a contest through which the Foundation supports the most valuable projects carried out by non-profit organizations in the area of education and local development. In the first half of 2010, grants were given to both local and national projects. Until 25 June, the Management Board distributed 19 grants in the total amount of PLN 401 thousand.

VI. Key risk factors relating to the operations of the Capital Group of Bank Handlowy w Warszawie S.A.

1. *Key risk factors and threats relating to the Group's environment*

1.1 Economy and macroeconomic environment

Despite symptoms of economic upturn in Poland, there is still much uncertainty regarding its duration. It has been associated with a gradual deterioration of the country's public finance manifested through increase in the public debt close to the prudential thresholds defined in the Public Finance Act. In the case of negative macroeconomic shock the public debt might increase over 55% GDP, calling for a much tighter fiscal policy. Reduction of the public deficit and debt would probably require cutting on expenditure and tax raises, leading to a slower economic development and deterioration of the financial condition of households. Moreover, the fears of the financial market participants regarding the state of the public finance in Poland might lead to higher volatility in the FX market and possibly affect the zloty.

High fiscal deficits and debts of certain euro zone countries create a risk of slowing down the GDP growth in the Western Europe. Due to strong trading and financial ties between Poland and the euro zone, the events in the Western Europe may cause risks for the Polish economy. Slower growth of GDP of the major business partners may lead to diminishing demand for Polish export. At the same time, the euro zone debt crisis may affect the climate in the financial markets, leading to a weaker zloty and making it more difficult for Polish companies to get external funding.

1.2 Regulatory risks

Any changes in the economic policies or in the legal system could have a considerable effect on the Bank's financial condition. In terms of banking sector regulations, a particularly important role is played by acts and the related secondary legislation, including regulations of the Ministry of Finance, resolutions of the Management Board of the National Bank of Poland (NBP) and the orders of the Chairman of NBP and resolutions of the Polish Financial Supervision Authority. From 1 January 2008, the Polish Financial Supervision Authority ("KNF") took over the rights and responsibilities of the former Commission for Banking Supervision ("KNB").

In terms of the regulations mentioned above, those of key significance include:

- admissible concentration of exposure limits (Banking Law);
- maximum level of equity investments in the capital market (Banking Law);
- liquidity, solvency and credit risk standards (resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority);
- risk management at the bank (Banking Law, resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority);
- calculating and meeting reserve requirements (NBP Act, resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority and resolutions of NBP's Management Board);
- taxes and related instruments;
- Act of 7 July 2005 amending the Civil Code and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such loan;
- limits regarding extension of mortgage-secured foreign currency loans, specified in Recommendation S of the Commission for Banking Supervision;
- Act of 16 February 2007 on protection of competition and consumers;
- Act of 23 August 2007 on counteracting unfair market practices;
- Act of 16 November 2000 on combating money laundering and terrorist financing;
- Act of 29 July 2001 on consumer credit;
- limits regarding extension of mortgage-secured foreign currency loans, specified in Recommendation S(II) of the Polish Financial Supervision Authority;
- Recommendation T of the Polish Financial Supervision Authority on good management practice concerning risk of retail credit exposure;
- Recommendation I of the Polish Financial Supervision Authority on management of foreign exchange risk in banks and rules of performing transactions subject to foreign exchange risk by banks;
- Recommendation A of the Polish Financial Supervision Authority on management of risks related to derivative transactions conducted by banks.

Due to failure to implement Directive 2007/64/EC of 13 November 2007 on payment services in the internal market (Payment Services Directive, PSD) within the required timeline, i.e. until 1 November 2009, the process of adapting operating activities of the entities covered by PSD was not completed in accordance with the European Union requirements. In the first half of 2010, further legislative work was conducted in order to transpose the EU regulations into the national law.

Additionally, due to failure to implement Directive 2008/48/EC of 23 April 2008 on credit agreements for consumers within the required timeline, i.e. until 11 June 2010, the process of adapting operating activities of the entities covered by such Directive was not completed in accordance with the European Union requirements.

Moreover, due to failure to implement Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID) and the secondary legislation, i.e. Commission Regulation No. 1287/2006 and Commission Directive No. 73/2006 (both of 10 August 2006) within the required timeline, i.e. until 1 November 2007, the process of adapting operating activities of the entities covered by MiFID (investment companies and lending institutions conducting investment activities) was not completed in accordance with the European Union requirements. In 2008, further legislative work was conducted in order to transpose the EU regulations into the national law, in particular into the Act on trading in financial instruments and the related Minster of Finance's regulations. However, the process of implementation was finalized at the end of 2009 when changes resulting from the judgment of the Constitutional Tribunal were introduced to the text of the regulations; the Constitutional Tribunal evaluated them at the request of the President of Poland. The act amending the previous regulations on financial instrument trading was published on 6 October 2009 and came into force on the 14th day after its publication, whereas the secondary regulations were published on 2 December 2009 and came into force on 16 December 2009. A 6-month adjustment term was granted to the Bank, which expired on 16 June 2010.

Changes in the legislation pertaining to the above issues also refer to the Bank's subsidiary Dom Maklerski Banku Handlowego S.A.

1.3 Competition within the banking sector

The Polish banking market has proved to attract attention also in the times of recession. Despite strong competition from other banks, new banks with little or no presence in the Polish market have watched this sector very closely. This has been proven by a considerable number of potential buyers interested in those banks that are already in the Polish market, but have been put on sale offered for sale, or by the number of notifications on the intention to run cross-border activities based on common passport, filed with the Financial Supervision Commission. Increased competition fosters development and leads to better quality of the offered services, which translates to better customer satisfaction, but also poses a threat to bank profits. The existing process of consolidation which was caused by difficult position of certain bank owners in Poland might reduce competition in this sector.

Increased credit risk being a result of financial difficulties of some companies, combined with problematic situation of individual customers due to rising unemployment forced the banks to be more careful while assessing creditworthiness of their clients. Therefore banks will put more effort into maximizing relations with the existing customers rather than turn to new ones. This should bring positive effects in a long-term perspective such as reduction of risk costs and improvement of the banking sector results.

2. Key risk factors and threats relating to the Group and its operations

2.1 Liquidity risk

Maturity mismatches between loans and the underlying deposits are a typical aspect of banking activity, and these occur at the Bank as well. They could give rise to potential problems for current liquidity were there to be a build-up of large payments to customers. Management of the Bank's assets and liabilities, including regulation and control of liquidity risk, is the responsibility of the Assets and Liabilities Committee (ALCO), which maps out a strategy later implemented by the Treasury.

The main task of the Assets and Liabilities Management Committee is management of the Balance Sheet structure to increase its profitability, defining admissible limits of financial risk undertaken in various areas, coordination of the pricing policy in terms of interest rates and making decisions on transfer pricing in the Bank.

As part of liquidity risk management, ALCO is responsible for preparing and implementing a uniform policy of managing the liquidity risk in the Bank, approving the annual liquidity plans and plans of funding the assets of the Bank, as well as liquidity limits and contingent plans regarding liquidity. It also determines the threshold values (limits) for various sources of funding and conducts regular reviews of liquidity risk reports.

The Bank's deposit base is stable and diversified. Moreover, the Bank has a large portfolio of liquid securities, good access to interbank market funding and adequate capital. The liquidity risk level is therefore low.

2.2 Foreign exchange risk

The Bank performs foreign exchange transactions both on behalf of its customers and for its own account, and holds open FX positions within the established limits. As a result, the Bank is exposed to exchange rate risk and it is uncertain whether future movements in exchange rates will or will not have an adverse effect on the Bank's financial condition. The control over foreign exchange risk is the responsibility of the Market Risk Department, which cooperates in this area with the Treasury Department responsible for managing liquidity and currency position. The market risk of Bank's own position is moderate and the Bank's Value at Risk limit for open FX positions is below 1% of the Bank's capital base.

2.3 Interest rate risk

As is the case with other Polish banks, the Bank is exposed to mismatch risk regarding the reprising of its assets and the liabilities that support them (risk of revaluation gap), as well as the risk that debt securities and interest rate based derivatives may be sensitive to market interest rate fluctuations (pricing risk). In terms of revaluation gap risk, interest rate risk may arise where it proves impossible to offset the fall in income caused by lower rates on interest on loans through a corresponding reduction in the rates of interest paid to depositors. As far as pricing risk is concerned, interest rate risk might occur in situations where changes in the market interest rates negatively affect the trading portfolio valuation and directly on the Bank's income or the value of equity of the Bank in the case of securities held for sale. Management of interest rate risk is one of the functions of the Bank's Assets and Liabilities Committee, which – among other things – develops the Bank's pricing policies regarding interest rate risk. The interest rate risk level during the first half of 2010 was low to medium in case of trading portfolios and medium in case of banking portfolios.

2.4 Credit risk

Credit risk is understood as a potential loss arising from the borrower's failure to repay their contractual liabilities due to insolvency or other reasons, taking into account the collateral, unfunded credit protection and other loss-reducing agreements. The Bank monitors its credit portfolio on an ongoing basis, classifying the assets in accordance with applicable regulations, and establishes the required provisions against loans. The Bank's Management Board is of the opinion that the current level of provisions is adequate. Given a possibility of changes in the external environment or the emergence of other factors that could have a negative impact of the financial situation of the Bank's customers, it is not certain that in the future the need to provide additional provisioning against the existing portfolio will not have an adverse effect on the Bank's financial condition, or that the provisions and collateral in place will prove sufficient to absorb any potential losses arising from lending activity.

2.5 Equity investment risk

Equity investments can be divided into two categories: strategic and held for sale. The strategic investment portfolio includes the Bank's shares in Polish financial institutions being of a strategic significance to the Bank due to its operations. The exposure held for sale usually results from debt to capital swaps and is a remainder of the Bank's past investment activities. Investments are made directly by the Bank or indirectly via the Bank's investment companies (100% owned by the Bank). For some of the equity investments, the assessment is based on the assumption of finding a strategic investor for the company in which the Bank holds shares. Moreover, due to a number of macroeconomic effects, the situation in the equity market and other factors having an impact on activities of the companies in which the Bank is a shareholder, the selling price of owned shares may turn out lower than expected, or even lower than the book value of the shares. The bank monitors and controls equity investments in its portfolio on an ongoing basis, and has made substantial provisions related to such investments, hence the risk level relating to further drop in the value of the Bank's investment portfolio is low.

2.6 Operating risk

The Bank's Group defines the operating risk as a possible loss resulting from inadequacy or default of internal processes, people or systems, or from external events.
Operating risks includes risk of business practices and reputation risk. Operating risk also includes legal risk, but it does not cover strategic risk or risk of potential losses resulting from decisions to undertake credit, market, liquidity or insurance activity risks.

The Bank's approach towards operating risk was defined in the internal procedures. The purpose is to create a consistent, effective and added-value-oriented system for operating risk control, evaluation, monitoring, measurement and reporting, and for ensuring general efficiency of the internal controls within the Bank's organization. The Risk and Control Self Assessment (RCSA) process was implemented by the Bank to help evaluate effectiveness of the control system. The Bank manages operating risk using tools, techniques and systems/applications whose affectivity is reviewed, confirmed and expanded on a regular basis.

Operating risk management also includes management of the risk of compliance risk, which is understood as the risk of non-compliance with regulations, including international regulations or laws of other countries that have an impact on the Bank's operations, internal regulations and the code of conduct adopted by the Bank. Compliance with the laws, internal regulations, corporate regulations, ethical standards and best practice is a duty of each and every employee of the Bank.

The Bank's Supervisory Board and Management Board oversee management of operating risk and in this process are supported by various Committees and a separate unit responsible for operating risk management.
Synthetic information on operating risk is discussed and reviewed by Committees that support the work of the Management Board and Supervisory Board of the Bank. Such information contains data that allow to monitor operating risk profile of the Bank (results of internal controls and external audits, results of RCSA, KRI-Key Risk Indicators, losses on operations, COB and information security updates, problems and corrective actions, capital requirements, and stress tests).

Due to low appetite for residual operating risk, all operating risks (including IT risk, legal risk, compliance risk, strategic risk etc.) will continue to be managed through effective control environment. The main goals for years 2010 to 2012 will focus on improving and enhancing operating risk management tools and techniques.
Use of outsourcing enables more clients to have access to information on products and services offered by the Bank, and to new technology solutions without additional expenditure. The Bank intends to continue using outsourcing, especially in the area of information technology, and in cases when such outsourcing is justified by business needs and does not threaten safe operations of the Bank. As outsourcing is not only benefits but also an increased risk, the Bank strives to mitigate such risk in particular by: ensuring compliance with the external laws and internal regulations, effective internal controls, monitoring of cooperation with third parties, ensuring safety of processed data and the banking secret. The decision to outsource banking activities is always taken by the Management Board of the Bank.

The Group applies a standard method (STA) to calculate the capital required to cover the operating risk. The Bank adjusts the level of capital to the level and type of risk as well as the nature, range and complexity of operations. For that reason, the Bank implemented the internal capital adequacy assessment process (ICAAP). As part of ICAAP, the Bank estimates, allocates and maintains capital at the level adequate to the risk profile and a well-defined risk appetite. The purpose of the well-defined risk appetite is to ensure safety of the operations and implement strategic goals for capital returns.

2.7 Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund, the Bank is included in a mandatory deposit protection scheme for personal deposits. Banks included in this scheme are required to make specified payments to the Fund.

Due to a generally worsening situation within the banking sector, or bankruptcy or financial distress of any of the participating banks, it might prove necessary for the Bank and other participants in the Bank Guarantee Fund to make large payments to the Fund, in proportion to the sums held within the individual deposit protection funds established at a given institution. This could have negative repercussions for the Bank's earnings

VII. Prospects for the development of the Capital Group of Bank Handlowy w Warszawie S.A.

1. General objectives for the Group development

The Bank's main objective is to increase systematically shareholder value by ensuring an appropriate return on equity, as well as maintaining liquidity and capital adequacy at an appropriate level to ensure customer safety and strengthen their trust in the Bank.

In the nearest future, the Bank will focus on strengthening relations with the existing clients, offering them a tailor-made range of products and services. The new customer segmentation was based on behavior patterns as well as scope of relations with the Bank. The Bank wants to be the leader in terms of innovation of the offered solutions, focusing at the same time on ensuring the highest customer satisfaction in the market. To this end, the Bank developed appropriate quality standards for each individual customer group and introduce qualitative parameters to the employee incentive schemes. Moreover, the development of the banking services network will be adjusted to the customers' lifestyles, moving towards integration of traditional banking with phone and internet banking. The Bank will be striving for a considerable increase in the number of customer contact points, increasing tenfold its presence in Poland.

1.1 Banking services to corporate and institutional customers

The Bank is a leader in the corporate banking market in Poland.

In 2010, the Bank plans to expand significantly its relations with the existing clients, focusing on the offered service quality and on changing the customer service model to make it best suited to the customer needs. The ultimate goal of the Bank is to maximize customer satisfaction from products and services, and to achieve the position of the leader of innovation that offers innovative solutions. The Bank will strive to strengthen relations with corporate clients and expand the area of cooperation. This will also mean that the Relationship Manager will have to devote more time to learn about the needs of the customers.

An important part of the Bank's revenues will be generated from trade finance, cash management and Treasury products, including foreign exchange. Innovative products of the highest quality will be the key factors behind the Bank's competitive advantage, especially in relations with the most demanding national as well as international customers.

While making the required changes resulting from the new strategy, the Bank will focus on achieving the highest operating efficiency possible.

Continuing implementation of its strategy for years 2010-2012, the Bank added investment banking to its range of services. Customers have at their disposal a team which is unique in the equity market, consisting of: Citi Handlowy, which has been the leading bank to provide services to corporate clients, Dom Maklerski Banku Handlowego, the no. 1 in the market (its share in the stock trading in WSE during the first half of 2010 was 15.3%), and Citi investment bankers with access to investment banking experience and the global group of clients and capital. Using all these assets, the Bank plans to intensify its activities in the investment banking area.

1.2 Brokerage activity

The market share of DMBH measured as the value of trading in the WSE in the first half of 2010 was 15.3 %, which helped DMBH maintained its leadership position in the market.
Brokerage activities are to a considerable extent determined by circumstances in the Polish equity market, which may be quite volatile in view of the prevailing uncertainty.

In terms of revenues, the prevailing segment of DMBH customers is still corporate customers. The aim of DMBH is to maintain its share in that segment.
Both current public offering (PZU, Tauron) and the planned ones (WSE) of a considerable value should encourage interest in the Polish market of shares on the part of international investors, who along with the local financial institutions are the largest group of customers of DMBH.

1.3 Consumer banking

Within the consumer banking area, in the second half of 2010 the Bank will continue its strategy adopted for years 2010-2012. The Bank will strive to ensure appropriate service level for each particular segment of the retail market. Strengthening relations with the existing Customers by increasing the number of product available to customers will the primary focus of the Bank in the retail market. This will in particular concern clients that only have a credit card product.

Apart from the need to ensure appropriate service level, the Bank will focus on developing its range of products. Innovative concepts will be sought for deposit products, while insurance products will be enhanced with additional options relating to property and life insurance. As far as credit cards are concerned, these will be tied up to a unique discount scheme.

Alongside, new distribution channel and customer contact channels will be developed. The development will consist both in improving the already existing channels (e.g. internet) and the new ones (mobile banking). The Bank will strive to provide its retail clients with a whole range of possibilities for contact with the Bank, depending on the preferences and current needs of the customer.

The area in focus will be high net worth clients. The Bank will aim to maintain its leading position in the market by carefully analyzing the clients' investment needs using advanced analytical tools. In addition, a whole range of special benefits and privileges available to affluent clients will be developed.

VIII. Best practice and management principles

1. Best practice at the Bank

By the resolution of 13 May 2008, the Management Board of the Bank expressed its willingness that the Bank should follow corporate governance principles presented in the Code of Best Practice for WSE Listed Companies, except for:

(i) Principle II.3 (directed to the Management Board) and rule III.9 (directed to the Supervisory Board) regarding Supervisory Board's approval of significant transactions/agreements with related entities, with regard to agreements executed within the operating business of the company, connected especially to liquidity management; and

(ii) Principle IV.8 regarding replacing the entity authorized to audit the financial statement at least once in 7 business years;

On 20 May 2008, the Supervisory Board also passed a resolution to introduce corporate governance principles included in the Code of Best Practice for WSE Listed Companies, except for the rules indicated before in the Management Board's resolution.

On 19 May 2010, the Warsaw Stock Exchange made an amendment (first since 4 July 2007) in the Code of Best Practice for WSE Listed Companies. The Code was adapted to the latest changes in the law, current international trends in corporate governance, and expectations of market participants. Changes in the Code of Best Practice came into force on 1 July 2010. Through its resolution of 20 July 2010, having reviewed the changes in the Code of Best Practice for WSE Listed Companies, the Management Board decided to declare its willingness to follow the corporate governance principles included in the amendment to the Code of Best Practice for WSE Listed Companies and present those changes to the Supervisory Board and recommend to the Supervisory Board a resolution concerning Bank's compliance with the changed rules. For other areas of corporate governance, the Management Board of the Bank decided to uphold its declaration expressed in the letter of the Management Board of 13 May 2008.

The Bank wishes to be the most respected financial institution in Poland, of the significant level of social and business responsibility. Since 2003 the Bank follows the corporate governance principles adopted by the Warsaw Stock Exchange in form of the Code of Best Practice for Public Companies 2005 and since 1 January 2008 in form of the Code of Best Practice for WSE Listed Companies; in case of the latter document the governing bodies of the Bank made a provision that three principles may not be applicable to the Company's situation. The main purpose of adopting corporate governance principles as a standard for operations of the Bank is to build transparent relations between all bodies and entities involved in the Company's operations and ensure that management of the Company and its business is performed in a proper and diligent way, ensuring loyalty to all shareholders.

A separate part of reports on the activities of the Bank and Bank's Capital Group in 2009 is statement of the Management Board on applying corporate governance principles in the Bank in 2009. The statement includes information mentioned in the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-member state (*Journal of Laws* No. 33, item 259, as amended).

One should stress that the willingness to ensure transparency of the operations of Bank Handlowy w Warszawie S.A., especially relations and process between the Company's statutory bodies, resulted in introduction of below-mentioned best corporate practice.

1.1 Investor relations

An integral element of the Bank's information policy, the purpose of which is to cater for information needs of all persons and institutions interested in Company information, are investor relations, which ensure information to the existing and potential investors as well as the capital market analysts. In terms of investor relations, the main tools of the information policy are:

- systematic contacts with analysts and investors in a given company in form of teleconferences and meetings, also at the Bank's premises, attended by the members of the Management Board of the Bank;
- support of the Public Relations during quarterly press conferences for media, organized after publication of interim reports;
- publishing on the website current information on the Bank and its projects, and all current and interim reports. The website also enables contact with the Investor Relations team which has a broad knowledge of the Bank and the Capital Group;
- enabling media to be present at the General Meeting of the Shareholders of the Bank.

1.2 Transparency

The Bank continues to undertake initiatives to achieve better transparency of the Bank's organization, division of rights and responsibilities and operation of its governing bodies and their mutual relations. For that purpose:

- the Bank has been publishing its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;
- half of the Supervisory Board is composed of independent members, including independent Chairman;
- as part of the Supervisory Board, Audit Committee has been established, which is composed of two independent members of the Supervisory Board, one being the Committee's Chairman;
- salaries of the members of the Company's governing bodies are adequate to the size of the Company and reflect their scope of responsibilities;
- all important internal regulations, as well as documents and information relating to General Meetings of the Shareholders of the Bank, are available at the head office of the Bank and on its website.

1.3 Protection of minority shareholders

The Bank provides appropriate protection of the rights of minority shareholders within the limits allowed by the capital nature of the Bank and the corresponding supremacy of the majority over the minority. In particular, to ensure equal treatment of its shareholders, the Bank has adopted, among others, the following principles:

- General Meetings of the Shareholders of the Bank are always held at the head office of Bank in Warsaw,
- representatives of media are allowed to be present at the General Meetings of the Shareholders,
- according to the adopted practice, all important materials required for a General Meeting of the Shareholders, including draft resolutions reviewed by the Supervisory Board, are made available to the shareholders at least 14 days before the date of the General Meeting at the head office and on the website of the Bank,
- General Meeting of the Shareholders acts according to its bylaws that define in detail the rules of holding meetings and adopting resolutions,
- General Meeting of the Shareholders is attended by members of the Supervisory Board and Management Board, who give explanation and information about the Bank to other participants of the Meeting within the scope of their responsibilities,
- members of the General Meeting of the Shareholders that object to a resolution have the right to justify their objection. In addition, each participant of the Meeting is allowed a possibility to make a written statement recorded in the minutes of the Meeting.

2. Best practice in Dom Maklerski Banku Handlowego S.A. and Handlowy Leasing Spółka z o.o.

Dom Maklerski Banku Handlowego S.A (DMBH) and Handlowy Leasing Spółka z o.o (HL) are not public companies, therefore they are not required to follow the Code of Best Practice for WSE Listed Companies or make any statements in that respect; however, due to their important role in the Capital Group, the following circumstances should be considered.

DMBH is a member of the Brokerage House Chamber and thus must follow the Code of Best Practice of Brokerage Houses developed by the Brokerage House Chamber. The Code does not regulate the question of corporate governance, but most of all concerns rules of business secret protection, relation with customers, conduct of the brokerage house employees, including relations with other brokerage houses. DMBH is an entity that is subject to the Act on trading in financial instruments and therefore apart from the Commercial Companies Code, it follows certain elements of the corporate governance resulting from the Act and its secondary regulation; among other things, pursuant to Art. 103 of the aforementioned law the Management Board should consist of at least 2 members with university degree, at least 3-year's working experience in financial institutions and good recommendations. The Polish Financial Supervision Authority is informed by DMBH on changes in the Management Board. In addition, DMBH must send mandatory reports to the Polish Financial Supervision Authority (including reports on any changes in the composition of the Management Board, or reports on resolutions of the General Meeting of Shareholders). The aforementioned Act also regulates the issue of buying shares of the brokerage house. It stipulates that the head office of the brokerage house must be in Poland.

Handlowy Leasing Spółka z o.o. (HL) operates as a leasing company. The leasing industry together with the Polish Leasing Association has only started development of best practice applicable to leasing companies.

HL operates in accordance with the Commercial Companies Code. HL has a Supervisory Board despite lack of requirement to have one, in order to ensure continuous supervision of the company operations.

3. Governing bodies of the Bank

3.1 Changes in the composition of the Management Board during the first half of 2010

3.1.1 Changes in the composition of the Management Board during the first half of 2010

On 30 June 2010, the Management Board of the Bank consisted of:

Sławomir S. Sikora	President of the Management Board
Robert Daniel Massey JR	Vice President of the Management Board – since 26 May 2010
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

On 26 May 2010, Mr Robert Daniel Massey JR was appointed Vice President of the Management Board.

3.1.2 Changes in the composition of the Supervisory Board during the first half of 2010

On 30 June 2010, the Supervisory Board of the Bank consisted of:

Stanisław Sołtysiński	Chairman of the Supervisory Board
Shirish Apte	Vice Chairman of the Supervisory Board
Andrzej Olechowski	Vice Chairman of the Supervisory Board
Igor Chalupec	Member of the Supervisory Board
Sanjeeb Chaudhuri	Member of the Supervisory Board
Goran Collert	Member of the Supervisory Board – until 25 June 2010
Mirosław Gryszka	Member of the Supervisory Board
Frank Mannion	Member of the Supervisory Board – since 28 June 2010
Krzysztof L. Opolski	Member of the Supervisory Board – since 28 June 2010
Aneta Polk (f. Popławska)	Member of the Supervisory Board – until 28 June 2010
Stephen Simcock	Member of the Supervisory Board
Wiesław A. Smulski	Member of the Supervisory Board
Alberto Verme	Member of the Supervisory Board
Stephen Volk	Member of the Supervisory Board

On 28 June 2010, the General Meeting of Shareholders appointed the following Supervisory Board members: Krzysztof L. Opolski, Frank Mannion.

Mr Goran Collert resigned from his function of the Member of the Supervisory Board on 25 June 2010.

The term of appointment of Ms Aneta Polk as a Member of the Supervisory Board expired on the General Meeting of Shareholders' session of 28 June 2010.

3.2 Rules of appointing and dismissing members of the Management Board

The Management Board consists of five to nine members. Each member of the Management Board is appointed by the Supervisory Board for a term of three years. At least half of the members of the Management Board should be of Polish nationality. The term of appointment of a Management Board member expire:

- on the day of the General Meeting of Shareholders approving the Management report on the activities of the Bank and financial report for the full past year of the term of office of the Management Board member,
- upon death of the Management Board member,
- upon dismissal of the Management Board member,
- upon resignation of the Management Board member, submitted in writing to the Chairman of the Supervisory Board.

3.3 Rights of the Management Board members

The Management Board makes decisions in matters concerning the Bank by way of resolutions, provided that decisions in such matters are not restricted by law or Articles of Association to be within the powers of other governing bodies of the Bank.

Through a resolution, the Management Board:

1) defines the Bank strategy,
2) creates and closes downs the committees supporting the work of the Bank and defines their powers,
3) decides and submits them to the Supervisory Board for approval the Management Board's bylaws,
4) decides and submits them to the Supervisory Board for approval the rules of handling special purpose funds created from net profit,
5) decides on the date of payment of dividend within the timeline defined by the General Meeting of the Shareholders,
6) appoints plenipotentiaries, general proxies and proxies with power of attorney and substitution,
7) decides in matters defined in the Management Board bylaws,
8) makes decisions in issues brought by the President, Vice President or Member of the Management Board,
9) independently decides on purchase or sale of real property, or on perpetual usufruct of or share in real property,
10) passes a resolution on the annual budget draft, accepts investment plans and reports of implementation of such plans,
11) accepts reports on the Bank's activities and financial reports,
12) formulates decisions regarding distribution of profit or coverage or losses,
13) approves of the Bank's employment policy, credit policy and legal principles of operations,
14) approves of the rules of the Bank's equity management,
15) approves of the employment structure,
16) established the basic structure of the Bank's organization, appoints and dismisses Heads of Sectors, appoints and dismisses Heads of Divisions, and makes decisions on their competence,
17) establishes the control action plan at the Bank and accepts control reports,
18) settles other issues which, according to the Articles of Association, are submitted to Supervisory Board or the General Meeting of the Shareholders,
19) makes decision on contracting liabilities or disposing of assets, when the total value of such liabilities or assets in relation to a single entity exceeds 5% of the Bank's equity, or appoints authorized persons to make such a decision; however, in matters within the powers of Committees appointed by the Bank the decisions are made after consulting a relevant Committee.

The Management Board of the Bank designs, implements and ensures operation of the management system, as well as designs, implements and updates written strategies and procedures, and undertakes action relating to the system of risk management, internal controls and internal capital estimation as well as review of the internal capital estimation and maintenance processes.

4. Other principles

4.1 Information on owners of securities with special control rights towards the Bank

All shares issued by the Bank are ordinary bearer shares and have no special control rights related to them.

4.2 Limitations regarding transfer of ownership of the Bank's shares or exercising the voting rights relating to the Bank's shares

Beside limitations stipulated by the Banking Law (Art. 25) regarding the requirement to obtain permission of the Polish Financial Supervision Authority to exercise the voting rights at the General Meeting of Shareholders of the Bank, if as a result of taking over or acquiring shares the person may reach or exceed the threshold of 10%, 20%, 25%, 33%, 50%, 66% or 75 % of total votes at the General Meeting of Shareholders, and to dispose of the right to exercise the voting rights at the previously accepted level, the Bank's Articles of Association put no limitations with regard to transfer of Bank's shares.

IX. Other information on the Bank's governing bodies and management principles

1. Information on the total number and nominal value of the shares of the Bank held by Management Board or Supervisory Board members

According to the information available to the Bank as the parent company, the Bank's shares are held by the following members of the governing bodies of the Bank:

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2010	Number of shares as at the day of submitting the previous quarterly interim report for Q2 of 2010
Iwona Dudzińska	Member of the Management Board	600	600
Andrzej Olechowski	Vice Chairman of the Supervisory Board	1,200	1,200
Total		**1,800**	**1,800**

Members of the governing bodies of the Bank do not have any Bank share options.

2. Information on any agreements between the Bank and the Management Board members that provide for compensation in case of resignation or dismissal of such members without a valid reason, or when such dismissal is a result of a merger or acquisition of the Bank

There is only one agreement between the Bank and a member of the Management Board that provides for financial compensation in case of termination of such agreement.

Each member of the Management Board signed a separate non-competition agreement with the Bank. Such agreement stipulates that within 12 months from the date of termination of the employment, the Management Board member shall refrain from undertaking any competitive activities against the Bank, in exchange of which the Bank shall pay an adequate compensation to such a member.

3. Management principles

During the first half of 2010, no changes in the management principles were made. The management principles are outlined in the Note to the Consolidated Financial Statement of the Capital Group of Bank.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-member state (*Journal of Laws* No. 33, item 259, as amended), was provided in the Consolidated Financial Statement of the Capital Group of Bank.

Signatures of Members of the Management Board

Date	Name	Position	Signature
23.08.2010	Sławomir S. Sikora	President	....
23.08.2010	Robert Daniel Massey JR	Vice President	....
23.08.2010	Michał H. Mrożek	Vice President	....
23.08.2010	Sonia Wędrychowicz-Horbatowska	Vice President	....
23.08.2010	Witold Zieliński	Vice President	....
23.08.2010	Iwona Dudzińska	Member	....