REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN THE FIRST HALF OF 2013

AUGUST 2013

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I. Poland's economy in the first half of 2013

1. Main macroeconomic trends

Monthly macroeconomic figures demonstrate that the pace of the economic growth remains low. The GDP increase in Q1 2013 was 0.5% YoY compared to 1% on average in the second half of the previous year and 1.9% in the entire 2012. The lower pace of the economic growth was reflected by industrial production figures, which in the first five months of the year decreased by 0.8% on average, and variable readings of the PMI, which in the half of the year remained below 50 points, which signaled a drop in the economic activity. From January to May 2013 the export growth rate was 5.8% YoY on average, while the import fell by 1.3% YoY. In the same period of 2012, the figures were 2.8% and 1.7%, respectively. A drop in import figures mostly follows the weaker domestic demand.

Weakened economic activity translated to an adverse situation in the labor market. From January to April, the registered unemployment rate was above 14%, the highest since 2007, to fall to 13.5% in May 2013 as a result of seasonal factors. In addition, in the first half of 2013 the enterprise sector recorded a drop in employment by 0.8% on average compared to the positive increase rate of 0.4% in the same period of the previous year and -0.1% in the second half of 2012. The increase in salaries slowed down to 2.1% in the first half of 2013 compared to 2.4% in the second half of 2012. Given poor situation in the labor market and an insignificant increase in loans granted to households, stagnation in private consumption was noticed in the first months of 2013. From January to May there was a slower increase in retail sales down to 0.5% YoY on average from 3.1% in the second half of 2012. However, a considerable drop in inflation, expected stabilization in the labor market and easing of the credit criteria in recommendations of the Polish Financial Supervision Authority (PFSA) will favor revival of consumption in the quarters to come.

Weaker domestic demand, drop in petrol prices, slower increase in food prices as well as reductions in controlled prices (gas prices) contributed to a major drop in inflation in the first half of 2013. Consumer Price Index (CPI) in the first months of 2013 dropped consistently from 1.7% YoY in January to the record low 0.2% YoY in June compared to 3.7% on average over the entire 2012.

In response to signs of an economic slowdown and a weaker inflationary pressure, monetary authorities decided to relax the monetary policy further. In the first half of 2013, the Monetary Policy Council cut interest rates to record low of 2.75%.

2. Money and forex markets

In the first half of 2013, the zloty considerably weakened against the euro, with the EUR/PLN exchange rate rising to 4.33 from 4.09 at the end of 2012. The USD/PLN exchange rate climbed to 3.32 at the end of June 2013 from 3.10 at the end of December 2012. The periodical fluctuations and final weakening of the zloty was, among other things, the result of the Cypriot crisis, economic slowdown and the uncertainty as to the situation in the indebted eurozone countries. A very important factor which resulted in the sale of assets of developing countries, including the zloty, was the Fed announcement on withdrawal from the quantitative relaxation of monetary policy this year. In June 2013 NBP made the first intervention in the FX market since 2011 to reduce fluctuations in the zloty exchange rates.

The beginning of the year in the debt market was stable. A strong consolidation in the debt market was a response to an unprecedented plan to repurchase assets by the Bank of Japan and expectations of major influx of funds to international bonds markets outside Japan. However, at the end of the second quarter, profitability on debt securities began to grow rapidly in response to the Fed announcement on the possible withdrawal from the quantitative relaxation of the monetary policy in the forthcoming months of the year. This event resulted in a major sale in bonds markets of developing countries, in particular the long-term bonds. The yield of two-year bonds at the end of the first half of 2013 amounted to 3.10%, similar to the end of 2012 levels (3.15%). The yield of 10-year bonds grew in the first half of 2013 by 59 basis points to 4.33%. In the same period, the WIBOR three-month rate went 137 basis points down to 2.73%.

3. Capital market

The first half of 2013 brought mixed emotions for equity investors. On the one hand, the local capital market was under pressure of global aversion to risk resulting from the debt crisis in Cyprus, major supply of shares (among others, sales of shares of PKO BP, Pekao and BZ WBK) and concerns relating to proposed changes in operations of the open-ended pension funds (OFE). On the other hand, low interest rates reduced the attractiveness of deposits in favor of share instruments and funds exposed to equity market, and positively affected demand on shares, in particular shares of small and medium-sized companies.

Among main indices on the WSE, there was an apparent polarization of return rates: the index of the largest companies WIG20 recorded a considerable drop by 13.1% and reached 2,245 points, while indices comprised of small and medium-sized capitalization companies grew by 12.2% (sWIG80) and 8.8% (mWIG40). As for sectoral sub-indices, the most favorable changes were recorded by chemical companies (+18.5%), construction companies (+9.5%) and media companies (+8.3%). In the same time, negative sentiment affected raw material companies (whose index fell by 36%), telecommunication companies (-27.9%), food companies (drop by 15.4%) and power companies (-14.4%).

The first six months of 2013 did not bring a revival in the primary market. At that time, shares of nine new companies were admitted to trading in the main market of WSE, while the total value of public offerings was merely PLN 333 million (compared to PLN 0.5 billion in the same period of the previous year). At the same time, shares of four companies were withdrawn from trading. Consequently, at the end of June, shares of 441 entities with total capitalization of PLN 725.4 billion were traded in the WSE (-1.2% compared to the end of 2012), out of which 71% was capitalization of domestic companies.

Warsaw Stock Exchange (WSE) Equity Indices, as at 30 June 2013

Index	30 Jun 2013	Change (%) 30 Jun 2013/ 31 Dec 2012	31 Dec 2012	Change YoY (%)	30 Jun 2012
WIG	44,747.79	(5.7%)	47,460.59	9.6%	40,810.88
WIG-PL	45,442.51	(4.8%)	47,709.64	11.6%	40,721.39
WIG-div	962.64	(12.7%)	1,103.30	(1.7%)	979.48
WIG20	2,245.64	(13.1%)	2,582.98	(1.3%)	2,275.30
mWIG40	2,776.93	8.8%	2,552.54	20.7%	2,300.09
sWIG80	11,716.43	12.2%	10,443.68	23.1%	9,520.17
Sector sub-indices					
WIG-Banks	6,598.44	(0.8%)	6,648.51	9.6%	6,021.14
WIG-Construction	1,851.41	9.5%	1,690.66	15.6%	1,602.22
WIG-Chemicals	11,447.78	18.5%	9,658.35	34.8%	8,491.31
WIG-Developers	1,476.14	2.1%	1,446.06	19.4%	1,236.74
WIG-Energy	3,207.57	(14.4%)	3,748.02	(11.2%)	3,612.05
WIG-IT	1,160.39	3.7%	1,118.85	2.0%	1,137.40
WIG-Media	2,875.12	8.3%	2,654.07	18.6%	2,424.63
WIG-Fuel	3,524.10	(1.3%)	3,571.11	28.4%	2,744.11
WIG-Food	3,103.44	(15.4%)	3,666.41	(5.5%)	3,284.71
WIG-Commodities	3,880.97	(36.0%)	6,063.70	(9.0%)	4,266.19
WIG-Telecoms	797.01	(27.9%)	1,106.15	(44.3%)	1,429.83

Source: WSE, Dom Maklerski Banku Handlowego S.A. ("DMBH")

Value of trading in shares and bonds and volume of trading in derivatives on WSE in the first half of 2013

	1st half of 2013	Change (%) 1H13/2H12	2nd half of 2012	Change (%) YoY	1st half of 2012
Shares (PLN million)*	264,312	31.8%	200,591	28.8%	205,169
Bonds (PLN million)	2,078	127.1%	915	77.5%	1,171
Futures ('000 contracts)	12,238	23.4%	9,914	8.6%	11,271
Options ('000 contracts)	818	(2.0%)	835	37.5%	595

** figures excluding calls*
Source: WSE, DMBH

The first half of 2013 brought a considerable increase in activity of investors in the cash market. The value of share trading in this period exceeded PLN 264.3 billion, which accounted for a half-year increase of over 31%, and an increase by 28.8% compared to the first half of 2012.

Even greater growth rates were recorded for the debt securities segment of the WSE. In the first six months, investors generated trade of slightly over PLN 2 billion, compared to PLN 915 million in the first half and PLN 1.17 billion in the second half of the previous year.

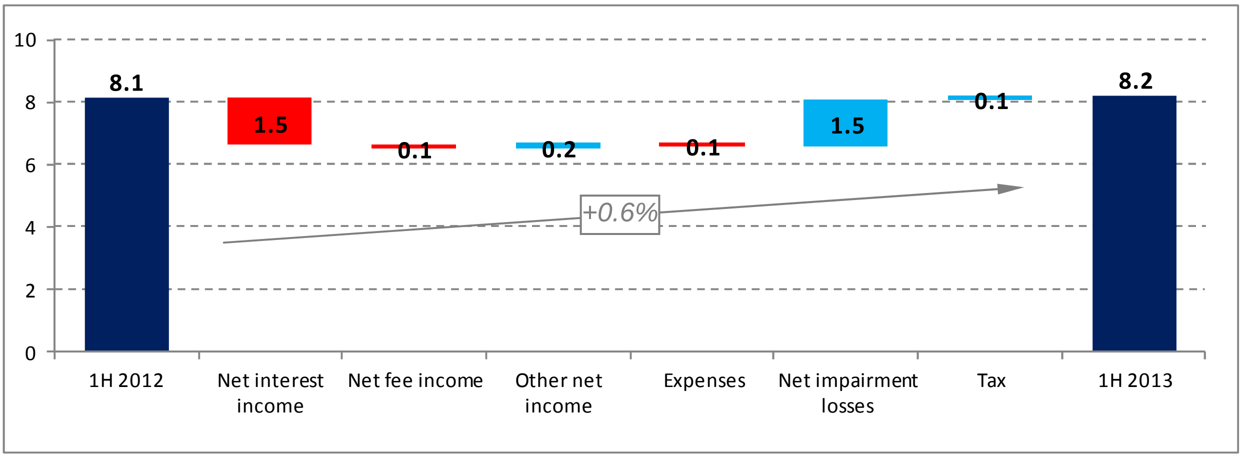
The volume of futures trading exceeded 12.2 million contracts, which means that the liquidity in that market grew by 8.6% YoY and by 23.4% compared to the second half of 2012.

Activities of investors in the options market (measured by the volume of trading) fell slightly compared to the previous half year by 2.0%, but compared to the same period of the previous year it was considerably higher (+37.5% YoY).

4. Banking sector

The profit after tax of the sector grew slightly in the first half of 2013 by 0.6% YoY (PLN 52 million) to reach PLN 8.2 billion. The revenue line was under pressure caused by the dynamic drop in the interest rates. As a result, the net interest income fell by 8% YoY (PLN 1.5 billion). The net fee and commission income was more stable with a milder drop of 2% YoY (PLN 0.1 billion), which was compensated by the increase in other revenues by 4% YoY (PLN 0.2 billion). The total income of the banking sector fell by 5% YoY to PLN 28.7 billion. Operating expenses remained at nearly the same level, as they grew in the first half of 2013 by 0.4% YoY (PLN 67 million). Retention of high profits was mainly supported by a drop in net impairment losses by 30% YoY (PLN 1.5 billion).

Net profit of the banking sector (PLN billion)



Source: NBP, own calculations

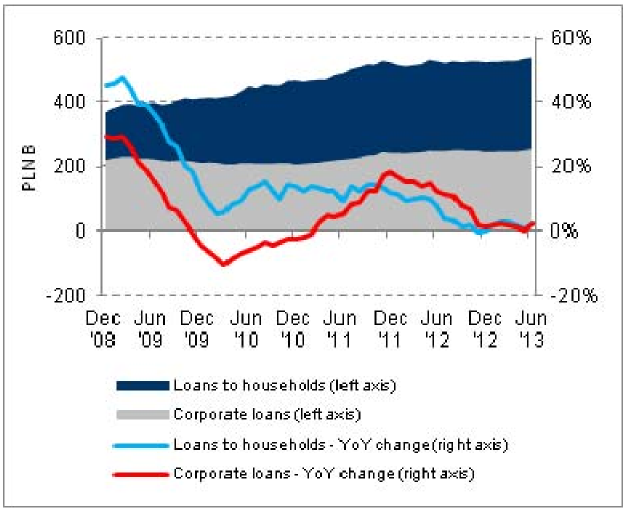
The drop in net impairment losses was, among other things, the result of a slight improvement in the quality of the households portfolio (NPL ratio of 7.2% compared to 7.3% at the end of June 2012), as a result of a major drop in the NPL ratio for non-mortgage loans (-1.6 p.p. YoY to 16.2%). Mortgage loans, which accounted for 37% of receivables from the non-financial sector performed worse, with the NPL ratio growing by 0.4 p.p. YoY to 3.0%. In Q2 2013 there was an evident slowdown of this adverse tendency. Loans granted to enterprises recorded a growth by 0.7 p.p. YoY to 11.8%, mostly as a result of a leap deterioration in the segment of small and medium-sized companies at the turn of the year. As with property loans, Q2 2013 demonstrated apparent signs of improvement, in particular in the portfolio of large enterprise loans, where the NPL ratio fell to 9.6% (by 0.3 p.p. compared to Q1 2013).

The sector effectiveness measured with the cost to revenue ratio clearly deteriorated, as the ratio went up from 50% to 53%.

Following an exceptionally slow beginning of 2013, in May and June the banking sector recorded a clear revival in the growth rate of loans. At the end of June 2013, the value of corporate loans was PLN 258 billion, an increase by 2% (PLN 6 billion) compared to June 2012 – where the growth from April to June totaled 3% i.e. PLN 7 billion. Considering the purpose of corporate loans, the volume of property loans grew at the fastest pace (5% YoY, increase by PLN 2.3 billion to PLN 52 billion). There was an apparent rebound in investment loans, which have grown by 4% since April 2013. In terms of the primary maturity, the fastest growth was recorded in the 10 to 20 years maturity inclusive (an increase by 10% YoY).

The same rebound was emerging in the household loan category. At the end of June 2013, the volume of household loans grew by 2% YoY (+PLN 12 billion), mostly as a result of property loans, the value of

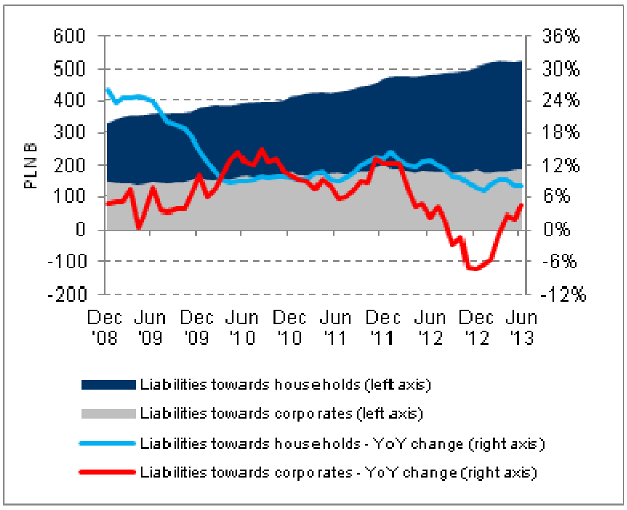
Loans to corporates and households



Source: NBP, own calculations

which at the end of the first half of 2013 was PLN 338 billion (increase by 4% YoY). As with the corporate loans, most of this growth was generated in the last two months of the half year. An increase in this period was 2% (PLN 10 billion) for household loans and 3% (PLN 9 billion) for property loans, respectively. The exchange rate remained relatively stable on a year on year basis. Thus, with minor appreciation of zloty against the Swiss franc and euro by 1% and 2% YoY, respectively, taken out of equation, the volume of property loans grew slightly faster, i.e. at 4% YoY (+PLN 14 billion). The portfolio of consumer loans is continuing the 28 month negative growth trend. However, we have seen its gradual slowdown since the beginning of the year. At the end of June 2013, the portfolio value was almost PLN 127 billion (PLN 4 billion less than in the corresponding period of the preceding year – a drop by 3% year-on-year).

Liabilities towards corporates and households



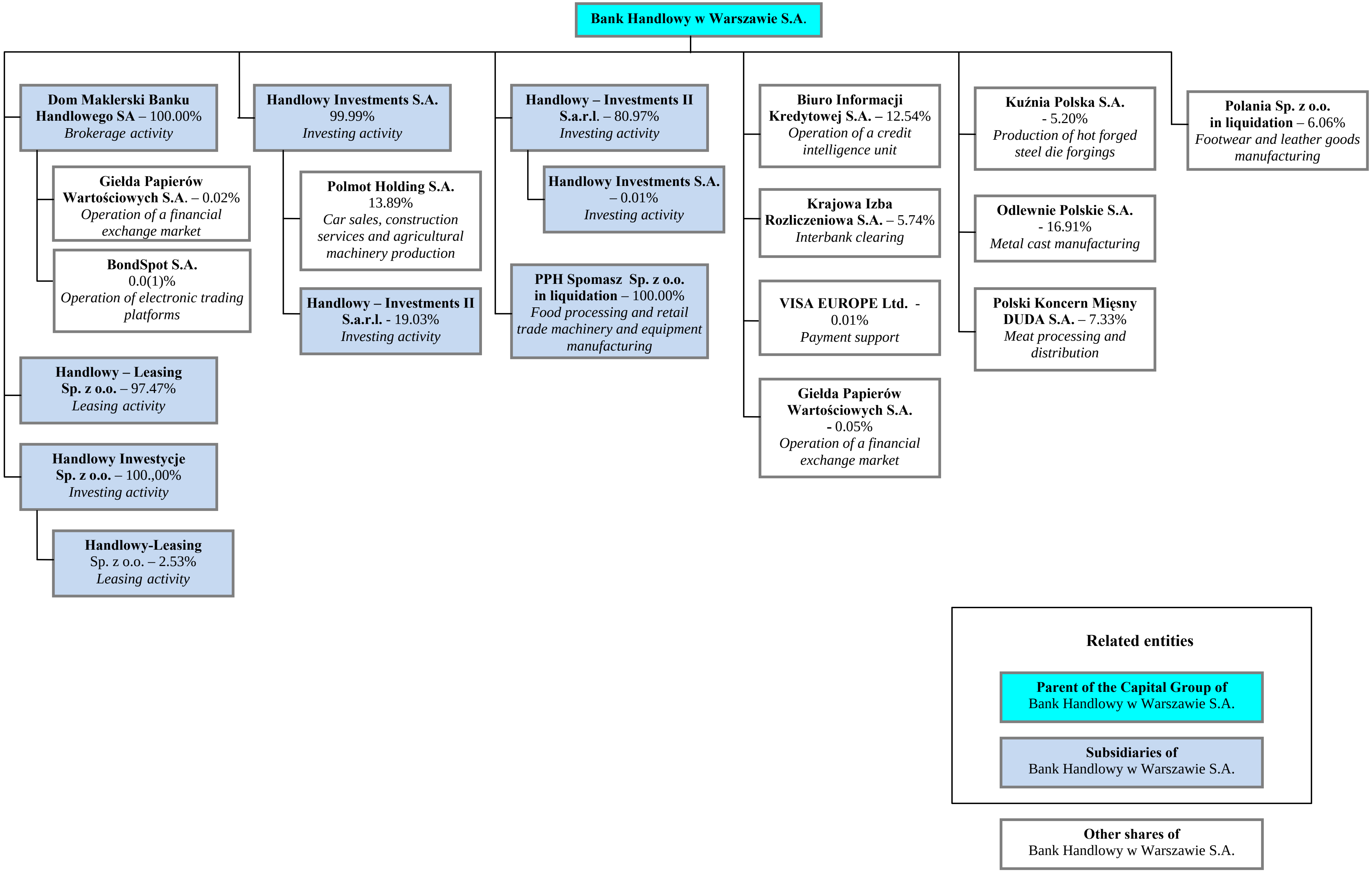
Source: NBP, own calculations

The volume of current corporate deposits at the end of the first half of 2013 increased by 17% YoY to PLN 95 billion. The balance of term deposits fell by 6% YoY in the same period to PLN 96 billion. Total corporate deposits grew by 4% YoY following Q2 2013 reversal of negative dynamics which had persisted since September 2012.

A more distinctive growth rate was recorded for household deposits. Their balance grew by PLN 39 billion (+8% YoY) to PLN 521 billion. 86% of the increase were current deposits (+34 billion, 14% YoY), while the volume of term deposits at the end of June 2013 grew by merely 2% YoY (+PLN 6 billion). The annual growth rate of household deposits fell in comparison to June 2012, when it was 13% YoY. This was related to lower interest in bank deposits as a result of a drop in interest rates and seeking of more attractive returns, among other things in investment products.

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

The organizational chart below depicts the structure of the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 30 June 2013; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA – 100.00% Brokerage activity
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 activity
Handlowy Inwestycje Sp. z o.o. – 100.,00% Investing activity
Handlowy-Leasing Sp. z o.o. – 2.53% Leasing activity
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. in liquidation – 100.00% Food processing and retail trade machinery and equipment manufacturing
Biuro Informacji Kredytowej S.A. – 12.54% Operation of a credit intelligence unit
Krajowa Izba Rozliczeniowa S.A. – 5.74% Interbank clearing
VISA EUROPE Ltd. - 0.01% Payment support
Giełda Papierów Wartościowych S.A. - 0.05% Operation of a financial exchange market
Kuźnia Polska S.A. - 5.20% Production of hot forged steel die forgings
Odlewnie Polskie S.A. - 16.91% Metal cast manufacturing
Polski Koncern Mięsny DUDA S.A. – 7.33% Meat processing and distribution
Polania Sp. z o.o. in liquidation – 6.06% Footwear and leather goods manufacturing
Related entities
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiaries of Bank Handlowy w Warszawie S.A.
Other shares 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 a parent company and subsidiaries:

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2013
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	6,934,245
Dom Maklerski Banku Handlowego S.A. ("DMBH")***	Brokerage activities	subsidiary	100.00%	full consolidation	110,178
Handlowy - Leasing Sp. z o.o.***	Leasing activities	subsidiary	100.00%**	full consolidation	144,774
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	29,682
PPH Spomasz Sp. z o.o. in liquidation***	Ceased operations	subsidiary	100.00%	full consolidation	Entity under liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2013*
*** Including indirect participations*
**** Pre-audit data*

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2013
Handlowy Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	11,349
Handlowy Investments II S.a.r.l.***	Investing activity	subsidiary	100.00%**	equity valuation	6,694

*** 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 million	30 Jun 2013	31 Dec 2012
Total assets	46,283.7	43,508.8
Shareholders' equity	7,006.3	7,391.4
Amounts due from customers*	17,029.1	16,221.4
Customer deposits*	24,268.8	23,629.7
Net profit	655.8	970.1
Capital adequacy ratio	17.5%	18.1%

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*

2. Financial result of the Group for the first half of 2013

2.1 Income statement

In the first half of 2013 the Group generated net profit of PLN 655.8 million, which represented an increase by PLN 181.5 million, or 38.3% compared to PLN 474.3 million of net profit in the first half 2012. Gross profit in the first half of 2013 totaled PLN 815.2 million and grew by PLN 220.3 million compared to the same period of the previous year. The increase in the gross profit in the first half of 2013 was fuelled by all main positions of the income statement, namely revenues grew by PLN 65.8 million YoY to PLN 1,473.4 million, general administrative expenses and depreciation were lower by PLN 102.5 million YoY and totaled PLN 675.7 million, net impairment losses on financial assets and provisions for financial and guarantee liabilities improved by PLN 53.5 million YoY and reached +PLN 18.7 million compared to PLN -34.8 million a year before.

The increase in net profit was mostly affected by the net gain on debt investment securities, which grew by PLN 134.2 million (i.e. 112.7%), overheads and general administrative expenses and depreciation reduced by PLN 102.5 million (i.e. 13.2%) and net impairment losses on financial assets and provisions for financial and guarantee liabilities granted (improvement by PLN 53.5 million).

On the other hand, net profit was adversely affected by the net interest income, which following the drop in profitability of bonds and cuts in base interest rates of the National Bank of Poland, fell by PLN 129.1 million YoY (i.e. 16.8%).

Selected income statement items

	1st half of		Change	
PLN'000	2013	2012	PLN'000	%
Net interest income	637,629	766,731	(129,102)	(16.8%)
Net fee and commission income	328,760	303,346	25,414	8.4%
Dividend income	4,225	5,489	(1,264)	(23.0%)
Net income on trading financial instruments and revaluation	237,853	218,017	19,836	9.1%
Net gain on debt investment securities	253,298	119,068	134,230	112.7%
Net gains on investment equity securities	1,844	-	1,844	-
Other operating income	9,775	(5,083)	14,858	-
Total income	**1,473,384**	**1,407,568**	**65,816**	**4.7%**
General administrative expenses and depreciation:	(675,688)	(778,183)	102,495	(13.2%)
General administrative expenses	(648,893)	(743,870)	94,977	(12.8%)
Depreciation expense	(26,795)	(34,313)	7,518	(21.9%)
Profit/loss on sale of non-financial assets	162	68	94	138.2%
Net impairment losses on financial assets and provisions for financial and guarantee liabilities	18,728	(34,800)	53,528	-
Share in net profits/losses of entities valued at equity method	(1,366)	265	(1,631)	-
Profit before tax	**815,220**	**594,918**	**220,302**	**37.0%**
Income tax expenses	(159,446)	(120,597)	(38,849)	32.2%
Net profit	**655,774**	**474,321**	**181,453**	**38.3%**

2.1.1 Revenues

In the first half of 2013 **net interest income** totaled PLN 637.6 million compared to PLN 766.7 million in the same period of 2012. The drop by PLN 129.1 million, i.e. 16.8% was mostly the result of lower interest revenues on debt securities available-for-sale (PLN -111.8 million). In the area of client activities, the Bank recorded a drop in interest revenues by PLN 72.5 million (out of which PLN 36.4 million pertained to credit cards), which was partly offset by the lower level of interest costs (drop by PLN 42.1 million YoY in total on non-banking sector client liabilities). These changes were largely related to the cycle of relaxing the monetary policy which has started in the second half of 2012 (interest rates were cut by a total of 200 basis points from 30 June 2012 to 30 June 2013).

Net fee and commission income in the first half of 2013 was PLN 328.8 million, compared to PLN 303.3 million in the same period of 2012 - growth by PLN 25.4 million or 8.4%, driven primarily by fees on brokerage activity (+PLN 22.6 million, i.e. 131.3% increase YoY) in connection with participation of DMBH in the accelerated sales of the share package of Bank Pekao S.A. and PKO Bank Polski, as well as the secondary offering of BZ WBK (for more information on these transactions, see p. 29 of this report), as well as an increase in the value of session and package transaction closed through DMBH in the WSE shares market by 45% YoY. Net fee and commission income in the Consumer Bank was positively affected by an increase in the sales of investment and insurance products. On the other hand, a reduction in the net fee income on payment and credit cards was recorded following a change in the interchange fees by card organizations effective since January 2013.

Net income on financial instruments held for trading and on revaluation in the first half of 2013 was PLN 237.9 million, compared to PLN 218.0 million in the same period of 2012 (increase by PLN 19.8 million or 9.1%). The increase was recorded for both the client activities and management of proprietary position of the Bank.

Net gain on investment debt securities in the first half of 2013 was PLN 253.3 million, compared to PLN 119.0 million in the same period of 2012 (increase by PLN 134.2 million or 112.7%), due to realization of gains on the sales of securities under favorable conditions in the domestic debt market (drop in yield of 2 year T-bonds by 153 basis points YoY; 5-year by 104 base points YoY and 10-year by 82 base points YoY).

2.1.2 Expenses

In the first half of 2013 the overheads and general administrative expenses and depreciation of the Group amounted to PLN 675.7 million, compared to PLN 778.2 million in the same period of 2012 (drop by PLN 102.5 million or 13.2%). The drop in expense was largely caused by the optimization of the branch network and workforce restructuring in 2012. The provision at PLN 42.2 million (including PLN 32.4 million recognized under staff expenses and PLN 9.8 million under building maintenance and rent costs) was charged to the net profit of Q1 2012. In addition, in the first half of 2013 there was a drop in the costs of advertising and marketing in connection with high base in the first half of 2012 on the corporate side and a strategic reduction in marketing spending for the mass segment in the retail area, with simultaneous increase in marketing expenses for Gold and Gold Select clients.

2.1.3 Net impairment losses on financial assets and provisions for financial and guarantee liabilities

Net impairment losses and provisions

PLN'000	1st half of		Change	
	2013	2012	PLN'000	%
Net impairment losses incurred but not reported (IBNR)	11,967	(1,669)	13,636	-
Net impairment losses on loans and provisions for financial and guarantee liabilities	(19,701)	(31,391)	11,690	(37.2%)
classifiable (individual assessment)	(17,685)	(6,529)	(11,156)	170.9%
delinquency managed (portfolio assessment)	(2,016)	(24,862)	22,846	(91.9%)
Other	26,462	(1,740)	28,202	-
Net impairment losses and provisions, total	**18,728**	**(34,800)**	**53,528**	**-**

In the first half of 2013 net impairment losses on financial assets and provisions for financial and guarantee liabilities were positive at PLN 18.7 million compared to PLN 34.8 million net impairment losses in the first half of 2012. A considerable drop in net impairment losses was recorded in the Consumer Bank following an improvement in the quality of portfolio of consumer loans and credit cards. Furthermore, a part of retail exposures with recognized impairment of PLN 148.8 million (98% out of which was written off the Bank's balance sheet) were sold for PLN 23.3 million in the first half of 2013. There was an increase in net impairment losses (by PLN 12.3 million) in the Corporate Bank, mainly in the portfolio measured individually in the segment of small and medium-sized enterprises.

2.1.4 Ratio analysis

Selected financial ratios

	1st half of 2013	1st half of 2012
Return on equity (ROE) *	17.9%	14.8%
Return on assets (ROA) **	2.7%	2.2%
Cost/income	46%	55%
Non-financial sector loans to non-financial sector deposits	73%	77%
Non-financial sector loans to total assets	32%	33%
Net interest income to total revenue	43%	54%
Net commission income to total revenue	22%	22%

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

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

Employment within the Group

FTEs	1st half of 2013	1st half of 2012	Change	
			FTEs	%
Average no. of jobs in the period	4,930	5,461	(531)	(9.7)
No. of jobs at the end of the period	4,796	5,295	(499)	(9.4)

There was a considerable drop in employment in the Group in the first half of 2013 compared to the same period of the previous year, following the process of group lay-offs which started in Q1 2012 as a result of employment restructuring performed in 2012, in connection with optimization of the network of branches aimed at improving the effectiveness of the retail business and other sectors of the Group.

2.2 Consolidated statement of financial position

As at 30 June 2013 total assets of the Group reached PLN 46.3 billion and were by 6.4% higher than at the end of 2012.

Consolidated statement of financial position

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
ASSETS				
Cash and balances with Central Bank	759,657	1,357,308	(597,651)	(44.0%)
Amounts due from banks	2,304,167	1,461,901	842,266	57.6%
Financial assets held-for-trading	8,876,177	6,838,483	2,037,694	29.8%
Debt securities available-for-sale	14,123,084	15,003,003	(879,919)	(5.9%)
Equity investments valued at equity method	13,305	15,110	(1,805)	(11.9%)
Other equity investments available-for-sale	15,183	19,921	(4,738)	(23.8%)
Amounts due from customers	17,029,070	16,221,412	807,658	5.0%
Tangible fixed assets	397,360	409,916	(12,556)	(3.1%)
Intangible assets	1,405,867	1,379,931	25,936	1.9%
Current tax assets	17,324	2,702	14,622	541.2%
Deferred tax assets	222,248	218,786	3,462	1.6%

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Other assets	1,107,541	567,736	539,805	95.1%
Non-current assets held-for-sale	12,738	12,554	184	1.5%
Total assets	**46,283,721**	**43,508,763**	**2,774,958**	**6.4%**
LIABILITIES				
Amounts due to banks	7,104,380	2,356,429	4,747,951	201.5%
Financial liabilities held-for-trading	4,843,821	5,846,404	(1,002,583)	(17.1%)
Amounts due to customers	24,951,588	26,852,165	(1,900,577)	(7.1%)
Provisions	27,654	28,656	(1,002)	(3.5%)
Liabilities due to current income tax	586	55,343	(54,757)	(98.9%)
Other liabilities	2,349,392	978,351	1,371,041	140.1%
Total liabilities	**39,277,421**	**36,117,348**	**3,160,073**	**8.7%**
EQUITY				
Share capital	522,638	522,638	-	-
Supplementary capital	2,997,759	3,011,380	(13,621)	(0.5%)
Revaluation reserve	(28,280)	257,791	(286,071)	(111.0%)
Other reserves	2,860,571	2,637,066	223,505	8.5%
Retained earnings	653,612	962,540	(308,928)	(32.1%)
Total equity	**7,006,300**	**7,391,415**	**(385,115)**	**(5.2%)**
Liabilities and equities, total	**46,283,721**	**43,508,763**	**2,774,958**	**6.4%**

2.2.1 Assets

Gross amounts due from customers

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Non-banking financial institutions	2,447,749	952,385	1,495,364	157.0%
Non-financial sector entities	9,700,384	10,377,197	(676,813)	(6.5%)
Individuals	5,834,316	5,920,993	(86,677)	(1.5%)
Public sector entities	120,669	101,195	19,474	19.2%
Non-commercial institutions	687	569	118	20.7%
Total	**18,103,805**	**17,352,339**	**751,466**	**4.3%**

In the first half of 2013 gross loan receivables grew by PLN 0.8 billion or 4.3% compared to the end of 2012 and amounted to PLN 18.1 billion. The increase was mostly recorded for non-banking financial institutions (+PLN 1.5 billion, i.e. 157%) which followed a higher balance of receivables due to purchased securities with repurchase agreement. On the other hand, the portfolio of non-financial sector entities and individuals fell by PLN 0.7 billion (6.5%) and PLN 0.1 billion (1.5%) respectively.

Debt securities portfolio

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Treasury bonds	8,794,679	6,829,474	1,965,205	28.8%
Treasury bills	-	2,982	(2,982)	(100.0%)
Bonds issued by banks	1,754,909	2,705,424	(950,515)	(35.1%)
NBP monetary bills	8,497,388	7,997,178	500,210	6.3%
Total	**19,046,976**	**17,535,058**	**1,511,918**	**8.6%**

In the first half of 2013 the end-of-period balance of the debt securities portfolio grew by PLN 1.5 billion (i.e. 8.6%) compared to the end of 2012, mainly as a result of an increase in positions in treasury bonds (mainly classified as held-for-trading) with the drop in the value of bonds issued by banks by PLN 0.9 billion (i.e. by 35.1%).

2.2.2 Liabilities

Liabilities towards customers

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Deposits from financial sector entities*	**4,222,622**	**2,791,494**	**1,431,128**	**51.3%**
Deposits of non-financial sector entities*, including:	**20,025,992**	**20,818,624**	**(792,632)**	**(3.8%)**
non-financial sector entities	10,579,428	11,700,802	(1,121,374)	(9.6%)
non-commercial institutions	625,785	399,846	225,939	56.5%
individual customers	6,770,964	5,886,508	884,456	15.0%
public sector units	2,049,815	2,831,468	(781,653)	(27.6%)
Other liabilities (including accrued interest)	**702,974**	**3,242,047**	**(2,539,073)**	**(78.3%)**
Total	**24,951,588**	**26,852,165**	**(1,900,577)**	**(7.1%)**
Deposits of financial and non-financial sector entities, including:				
in PLN	19,295,003	18,619,512	675,491	3.6%
in foreign currency	4,953,611	4,990,606	(36,995)	(0.7%)
Total	**24,248,614**	**23,610,118**	**638,496**	**2.7%**

** liabilities without accrued interest*

On the side of liabilities, the most substantial change was recorded under liabilities towards banks, which compared to the end of 2012 grew by PLN 4.7 billion. Customer deposits also grew in the first half of 2013, where the increase applied to demand deposits of individuals (increase by PLN 1.0 billion, i.e. 20.2%, mostly in saving accounts) and deposits of financial sector entities (increase by PLN 1.4 billion, i.e. 51.3%). On the other hand, corporate and public sector customer deposits as well as other liabilities towards customers recorded a drop (by PLN 1.7 billion, i.e. 11.2 % and PLN 2.5 billion, i.e. 78.8% respectively), which resulted in the drop in the total balance of liabilities towards customers by PLN 1.9 billion, i.e. 7.1%. The drop in other liabilities towards customers was the result of lower liabilities related to repo contracts.

2.2.3 Source and use of funds

PLN'000	30 Jun 2013	31 Dec 2012
Source of funds		
Banks	7,104,380	2,356,429
Customers	24,951,588	26,852,165
Own funds including net income	7,006,300	7,391,415
Other	7,221,453	6,908,754
Total source of funds	**46,283,721**	**43,508,763**
Use of funds		
Amounts due from banks	2,304,167	1,461,901
Amounts due from customers	17,029,070	16,221,412
Securities, shares and other financial assets	23,027,749	21,876,517
Other	3,922,735	3,948,933
Total use of funds	**46,283,721**	**43,508,763**

2.3 Equity and the capital adequacy ratio

The value of the Group's equity (excluding net profit) as at the end of the first half of 2013 remained virtually unchanged, i.e. it decreased by PLN 70.8 million (1.1%) in comparison with the year-end of 2012. The drop was driven by the revaluation reserve of the portfolio of investment debt securities. At the same time, the Bank recorded an increase in the reserve capital (+PLN 208.3 million) and the general banking risk fund (+PLN 13.5 million) in connection with retention of 25% of the Bank's 2012 profit.

Equity*

	As at		Change	
PLN'000	**30 Jun 2013**	**31 Dec 2012**	**PLN'000**	**%**
Share capital	522,638	522,638	-	-
Supplementary capital	2,997,759	3,011,380	(13,621)	(0.5%)
Reserve capital	2,335,203	2,126,900	208,303	9.8%
Revaluation reserve	(28,280)	257,791	(286,071)	-
General risk reserve	521,000	507,500	13,500	2.7%
Other equity	2,206	(4,926)	7,132	-
Total equity	**6,350,526**	**6,421,283**	**(70,757)**	**(1.1%)**

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

Capital funds are fully sufficient to ensure financial security to the Group 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 Jun 2013**	**31 Dec 2012**
I	**Total own funds including:**	**4,929,130**	**5,010,491**
	Decrease of first-tier and other capital		
	equity investment in financial entities	13,305	15,110
	intangible assets, including:	1,405,867	1,379,931
	goodwill	1,245,976	1,245,976
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**20,228,125**	**20,150,725**
III	**Total capital requirements, including:**	**2,252,836**	**2,220,164**
	credit risk capital requirements (II*8%)	1,618,250	1,612,058
	counterparty risk capital requirements	86,397	95,648
	excess concentration and large exposures risks capital requirements	62,708	48,024
	total market risk capital requirements	104,598	78,194
	operational risk capital requirements	363,336	366,893
	other capital requirements	17,547	19,347
	Capital adequacy ratio (I/III*12.5)	**17.5%**	**18.1%**

**Capital Adequacy Ratio was 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 (PFSA Official Journal No. 2. item 11).*

As at 30 June 2013 the Group's capital adequacy ratio stood at 17.5% and was 0.6 p.p. lower than at the end of 2012. This resulted from a minor drop in the Group's equity. The total capital requirement remained virtually unchanged.

2.4 Earnings guidance for 2013

The Bank as the parent entity did not publish earnings guidance for 2013.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2013

1. Lending and other risk exposures

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 customer's operations. Besides, each borrower is followed up on an ongoing basis so that any symptoms of deteriorating creditworthiness may be detected early and subsequent corrective actions implemented. In the first half of 2013, the Group continued optimization of the lending process and adjustment of the loans offered to the actual needs of 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 of the Consumer Bank customers, and in particular during scorecard analysis, information from the Credit Information Bureau (BIK) is used.

Gross receivables to customers

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Loans in PLN	15,476,515	14,720,657	755,858	5.1%
Loans in foreign currency	2,627,290	2,631,682	(4,392)	(0.2%)
Total	**18,103,805**	**17,352,339**	**751,466**	**4.3%**
Amounts due from non-financial sector entities	15,656,056	16,399,954	(743,898)	(4.5%)
Amounts due from financial sector entities	2,447,749	952,385	1,495,364	157.0%
Total	**18,103,805**	**17,352,339**	**751,466**	**4.3%**
Non-banking financial institutions	2,447,749	952,385	1,495,364	157.0%
Non-financial sector entities	9,700,384	10,377,197	(676,813)	(6.5%)
Individuals	5,834,316	5,920,993	(86,677)	(1.5%)
Public sector entities	120,669	101,195	19,474	19.2%
Non-commercial institutions	687	569	118	20.7%
Total	**18,103,805**	**17,352,339**	**751,466**	**4.3%**

As at 30 June 2013, gross receivables to customers was PLN 18.1 billion, increasing by 4.3% in comparison to the figure of 31 December 2012. The biggest part of the non-banking loan portfolio are loans to non-financial entities, which decreased by 6.5% in the first half of 2013. There was a considerable growth in receivables to non-banking financial institutions by PLN 1.5 billion to PLN 2.5 billion (from 1.0 billion at the end of 2012). Loans to individuals fell compared to the year-end 2012 by PLN 0.1 billion, i.e. 1.5% to PLN 5.8 billion.

The currency structure of the loans as at the end of June 2013 changed slightly as compared to the end of 2012. The share of foreign currency loans as at 30 June 2013 was slightly lower than as at the end of 2012 and amounted to 14.5%. It must be noted that the Group grants loans mainly in PLN, while FX loans are granted to corporate clients, who are able – in the opinion of the Group – to bear the foreign exchange risk without affecting their financial condition.

The Group monitors the concentration of its exposures on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. As at the end of June 2013, the credit exposure of the Group to non-banking sector was within the legal concentration limit.

Concentration of exposures – non-bank clients

PLN'000	30 Jun 2013			31 Dec 2012		
	Balance sheet exposure*	**Granted financial and guarantee liabilities**	**Total exposure**	**Balance sheet exposure***	**Granted financial and guarantee liabilities**	**Total exposure**
GROUP 1	9	956,380	956,389	295,507	660,984	956,491
GROUP 2	724,414	231,498	955,912	773,688	161,095	934,783
CLIENT 3	716,500	200,050	916,550	716,500	200,050	916,550
GROUP 4	174,160	576,683	750,843	217,657	499,661	717,318
GROUP 5	322,912	179,027	501,939	318,113	175,675	493,788
GROUP 6	-	500,085	500,085	440,436	60,233	500,669
CLIENT 7	-	500,050	500,050	-	50	50
GROUP 8	438,001	49,837	487,838	303,686	167,502	471,188
GROUP 9	412,170	57,893	470,063	443,147	168,222	611,369
GROUP 10	194,259	259,472	453,731	198,076	253,359	451,435
Total 10	**2,982,425**	**3,510,975**	**6,493,400**	**3,706,810**	**2,346,831**	**6,053,641**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries *

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	**30 Jun 2013**		**31 Dec 2012**	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,057,954	18.6%	4,285,518	21.1%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,736,137	12.5%	2,733,355	13.5%
Financial intermediation, excluding insurance and pension funds	2,461,099	11.3%	1,684,544	8.3%
Retail trade, excluding retail trade in vehicles	1,370,451	6.3%	1,226,034	6.0%
Production of food and beverages	1,128,492	5.2%	1,038,106	5.1%
Wholesale and retail trade in motor vehicles, repair of motor vehicles	748,367	3.4%	832,465	4.1%
Production and processing of coke and petroleum products	738,592	3.4%	715,034	3.5%
Public administration and national defence; compulsory social security	655,558	3.0%	139,252	0.7%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	571,475	2.6%	791,205	3.9%
Production of basic pharmaceutical substances, medicines and other pharmaceutical products	553,642	2.5%	681,676	3.4%
Top 10 business sectors	**15,021,767**	**68.8%**	**14,127,189**	**69.6%**
Metal ore mining	500,000	2.3%	500,584	2.5%
Construction of buildings	430,809	2.0%	346,996	1.7%
Production of metal goods, excluding machines and equipment	400,274	1.8%	424,532	2.1%
Manufacture of machines and machinery, not classified elsewhere	380,735	1.7%	109,782	0.5%
Activities which support financial services and insurance and pension funds	368,036	1.7%	109,439	0.5%
Manufacture of electric appliances	356,245	1.6%	453,766	2.2%
Manufacture of chemicals and chemical products	351,055	1.6%	288,537	1.4%
Manufacture of rubber and plastic products	349,525	1.6%	280,816	1.4%
Manufacture of furniture	325,158	1.5%	240,335	1.2%
Manufacture of goods from other mineral non-metallic raw materials	314,096	1.4%	217,856	1.1%
Top 20 business sectors	**18,797,700**	**86.0%**	**17,099,832**	**84.2%**
Other sectors	**3,048,681**	**14.0%**	**3,167,587**	**15.8%**
Total	**21,846,381**	**100.0%**	**20,267,419**	**100.0%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks).*

1.2 Loan portfolio quality

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

Loans to customers by portfolio with/without recognized impairment

PLN'000	30 Jun 2013	31 Dec 2012	Change	
			PLN'000	%
Loans without recognized impairment, including:	16,755,825	15,938,733	817,092	5.1%
non-financial sector entities	14,327,071	15,005,344	(678,273)	(4.5%)
corporate clients*	9,189,616	9,833,172	(643,556)	(6.5%)
individual customers	5,137,455	5,172,172	(34,717)	(0.7%)
Loans with recognized impairment, including:	1,238,050	1,299,462	(61,412)	(4.7%)
non-financial sector entities	1,219,054	1,280,466	(61,412)	(4.8%)
corporate clients*	522,193	531,645	(9,452)	(1.8%)
individual customers	696,861	748,821	(51,960)	(6.9%)
Amounts due from matured transactions in derivative instruments	109,930	114,144	(4,214)	(3.7%)
Total gross loans to customers, including:	**18,103,805**	**17,352,339**	**751,466**	**4.3%**
non-financial sector entities	15,546,125	16,285,810	(739,685)	(4.5%)
corporate clients*	9,711,809	10,364,817	(653,008)	(6.3%)
individual customers	5,834,316	5,920,993	(86,677)	(1.5%)
Impairment, including:	**(1,074,735)**	**(1,130,927)**	**56,192**	**(5.0%)**
Amounts due from matured transactions in derivative instruments	(92,383)	(94,925)	2,542	(2.7%)
Total net amounts due from customers	**17,029,070**	**16,221,412**	**807,658**	**5.0%**
Impairment provisions coverage ratio**	**79.4%**	**79.7%**		
corporate clients*	71.4%	67.0%		
individual customers	84.8%	88.2%		
Non-performing loans ratio (NPL)	**6.9%**	**7.5%**		

** Corporate clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households*

*** Including IBNR provision*

In the first half of 2013 the impairment provisions coverage ratio fell by 0.3 p.p. compared to the end of 2012 and reached 79.4%.

Compared to the year-end of 2012, the non-performing loans ratio fell to 6.9% of the gross customer receivables portfolio at the end of June 2013.

As at 30 June 2013 the impairment of the portfolio was PLN 1.1 billion, which represented a drop by PLN 56.2 million (i.e. 5.0%) compared to the end of 2012. The drop in impairment was recorded mainly in the portfolio assessed receivables: PLN 51.2 million, i.e. 8.4% of drop compared to the year-end of 2012 and in the portfolio without recognized impairment: PLN 13.6 million, i.e. 11.4% of the drop compared to the year-end of 2012. As at 30 June 2013, impairment increased in the portfolio assessed individually, by PLN 8.5 million i.e. by 2.1%, as compared to 31 December 2012.

Impairment of the customer loan portfolio

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Impairment due to incurred but not reported (IBNR) losses	105,032	118,608	(13,576)	(11.4%)
Impairment of receivables	969,703	1,012,319	(42,616)	(4.2%)
classifiable (individual assessment)	409,367	400,831	8,536	2.1%
delinquency managed (portfolio assessment)	560,336	611,488	(51,152)	(8.4%)
Total impairment	**1,074,735**	**1,130,927**	**(56,192)**	**(5.0%)**
Total provisions coverage ratio	5.9%	6.5%		

The Management Board believes that impairment of the customer loan portfolio represents the best estimate of the actual impairment of the portfolio, taking into account the discounted forecast of future cash flows associated with repayment of the receivables.

1.3 Contingent liabilities

As at 30 June 2013 the Group's off-balance sheet exposure amounted to PLN 15.7 billion, increasing by PLN 1.4 billion (i.e. 10.1%) from the figure reported at the end of 2012. The biggest change concerned committed loans which increased by PLN 1.0 billion (i.e. 8.6%).

Contingent off-balance sheet liabilities granted

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Guarantees	1,766,530	1,764,624	1,906	0.1%
Import letters of credit issued	108,896	144,855	(35,959)	(24.8%)
Export letters of credit confirmed	4,665	4,273	392	9.2%
Credit commitments	12,048,064	11,092,470	955,594	8.6%
Securities issuance guarantees granted to other issuers	1,508,050	1,212,550	295,500	24.4%
Other	254,287	35,186	219,101	622.7%
Total	**15,690,492**	**14,253,958**	**1,436,534**	**10.1%**
Provisions for contingent liabilities granted	11,967	11,476	491	4.3%
Provisions coverage ratio	0.08%	0.08%		

The total value of collateral securing borrower's accounts or assets was PLN 2,709 million as at 30 June 2013 and PLN 2,483 million as at 31 December 2012.

In the first half of 2013 the Group issued 5,797 enforcement titles for the total amount of PLN 120.2 million, while in the first half of 2012 it issued 5,464 enforcement titles for the total amount of PLN 84.3 million.

At the end of the first half of 2013 the total value of guarantees or sureties issued by the Bank or its subsidiary to one entity or its subsidiary was not higher than 10% of the Group's equity.

2. External funding

As at the end of June 2013 the total value of external funding of the Group acquired from banks reached PLN 7.1 billion and was PLN 4.7 billion (i.e. 201.5%) higher in comparison with the end of December 2012. The increase involved mainly term deposits, while the total external funding of the Bank from customers stood at PLN 25.0 billion as at the end of the first half of 2013 and was PLN 1.9 billion lower than at the end of 2012.

External funding of banks

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Current accounts	1,864,259	938,655	925,604	98.6%
Term deposits	3,864,129	537,903	3,326,226	618.4%
Loans and advances received	401,187	323,924	77,263	23.9%
Liabilities due to sold securities under repurchase agreements	964,380	552,680	411,700	74.5%
Other liabilities	8,539	127	8,412	-
Accrued interest	1,886	3,140	(1,254)	(39.9%)
Total	**7,104,380**	**2,356,429**	**4,747,951**	**201.5%**

Funding from customers

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Deposits from financial sector entities				
Current accounts	863,745	444,961	418,784	94.1%
Term deposits	3,358,877	2,346,533	1,012,344	43.1%
Accrued interest	7,157	3,296	3,861	117.1%
	4,229,779	**2,794,790**	**1,434,989**	**51.3%**

PLN'000	As at		Change	
	30 Jun 2013	31 Dec 2012	PLN'000	%
Deposits from non-financial sector entities				
Current accounts, including:	13,554,837	13,834,538	(279,701)	(2.0%)
corporate customers	6,325,666	6,990,395	(664,729)	(9.5%)
individual customers	5,813,188	4,835,774	977,414	20.2%
public sector units	1,415,983	2,008,369	(592,386)	(29.5%)
Term deposits, including:	6,471,155	6,984,086	(512,931)	(7.3%)
corporate customers	4,879,547	5,110,253	(230,706)	(4.5%)
individual customers	957,776	1,050,734	(92,958)	(8.8%)
public sector units	633,832	823,099	(189,267)	(23.0%)
Accrued interest	12,980	16,306	(3,326)	(20.4%)
	20,038,972	**20,834,930**	**(795,958)**	**(3.8%)**
Total deposits	**24,268,751**	**23,629,720**	**639,031**	**2.7%**
Other liabilities				
Liabilities due to sold securities under repurchase agreements	147,038	3,059,546	(2,912,508)	(95.2%)
Other liabilities, including:	535,407	160,143	375,264	234.3%
cash collateral	77,814	74,380	3,434	4.6%
Accrued interest	392	2,756	(2,364)	(85.8%)
	682,837	**3,222,445**	**(2,539,608)**	**(78.8%)**
Total	**24,951,588**	**26,852,165**	**(1,900,577)**	**(7.1%)**

The highest change was recorded for liabilities due to sold securities under repurchase agreements, which fell by PLN 2.9 billion (i.e. 95.2%). Customer deposits grew by PLN 0.6 billion (i.e. 2.7%), where the increase applied to deposits of financial sector entities (increase by PLN 1.4 billion, i.e. 51.3%) and demand deposits of individuals (increase by PLN 1.0 billion, i.e. 20.2%). On the other hand, deposits of corporate customers and budgetary units were lower compared to the year-end of 2012 (by PLN 0.9 billion, i.e. 7.4% and PLN 0.8 billion, i.e. 27.6% respectively), which resulted in the drop in the total balance of non-financial sector entity deposits by PLN 0.8 billion, i.e. 3.8%.

3. Corporate Bank

3.1 Summary segmental results

PLN'000	1st half of 2013	1st half of 2012	Change	
			PLN'000	%
Net interest income	298,207	376,350	(78,143)	(20.8%)
Net fee and commission income	158,040	131,101	26,939	20.5%
Dividend income	1,294	1,775	(481)	(27.1%)
Net income on trading financial instruments and revaluation	221,365	199,454	21,911	11.0%
Net gain on debt investment securities	253,298	119,068	134,230	112.7%
Net gains on investment equity securities	1,844	-	1,844	-
Other operating income	19,749	7,224	12,525	173.4%
Total income	**953,797**	**834,972**	**118,825**	**14.2%**
General administrative expenses and depreciation	(304,211)	(340,397)	36,186	(10.6%)
Profit/loss on sale of non-financial assets	92	47	45	95.7%
Net impairment losses on financial assets and provisions for financial and guarantee liabilities	(20,856)	(8,570)	(12,286)	143.4%
Share in net profits/losses of entities valued at equity method	(1,366)	265	(1,631)	-
Profit before tax	**627,456**	**486,317**	**141,139**	**29.0%**
Cost/income	**32%**	**41%**		

The main factors that determined the gross profit of Corporate Bank for the first half of 2013 as compared to the corresponding period of 2012 were:

- The drop in the net interest income mostly as the result of lower interest income on debt securities available-for-sale (PLN -111.8 million). On the other hand, there was an increase in the net interest income on customer activities, mostly as a result of the lower level of interest costs (the result of a drop in the interest rates);
- an increase in the net fee and commission income, mostly from brokerage activity due to higher revenues related to participation of the Group in major transactions in the equity market, such as the accelerated sales of the shares package of Bank Pekao S.A. and PKO Bank Polski and the secondary offering of BZ WBK, as well as two-digit increase in equity turnover on the WSE;
- an increase in income on trade financial instruments and revaluation both on the side of result on the Bank's proprietary management and the result on customer activity;
- an increase in net gains on investment debt securities resulting from realization of profit on the sales of securities under favorable macroeconomic conditions in the domestic bond market;
- a drop in operating expenses resulting from lower employee costs (the costs of the first half of 2012 included PLN 4.3 million of a provision for severance payments due to employment restructuring) and a drop in marketing expense from high base recorded for the first half of 2012;
- an increase in net impairment losses on the financial assets, mainly in the portfolio assessed individually in the segment of small and medium-sized enterprises.

3.2 Corporate and Investment Bank and the Capital Markets

3.2.1 Corporate and Commercial Bank

Corporate banking activities of the Bank include comprehensive financial services provided to the largest Polish companies and strategic enterprises with a strong growth potential as well as to the largest financial institutions and public sector entities.

The number of corporate clients (including strategic customers, global clients and corporate clients) was 7,700 at the end of the first half of 2013, a decrease of 5% compared to the first half of 2012, when the number was 8,100. In the Commercial Bank (small and medium-sized enterprises, large companies and the public sector), the Bank served 5,600 clients at the end of the first half of 2013, a decrease of 7% compared to 6,000 clients served at the end of the first half of 2012.

What corporate banking clients have in common is their demand for advanced financial products and advisory in financial services. In this area, the Bank provides coordination of the offered investment banking, treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovative, competitive and modern financing structures on offer rely on a combination of the 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 according to the management reporting format.

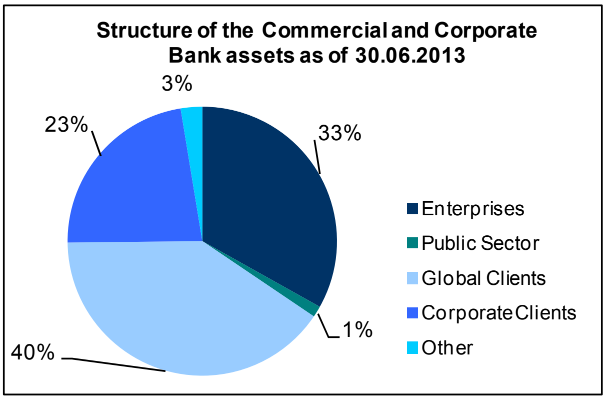
Assets

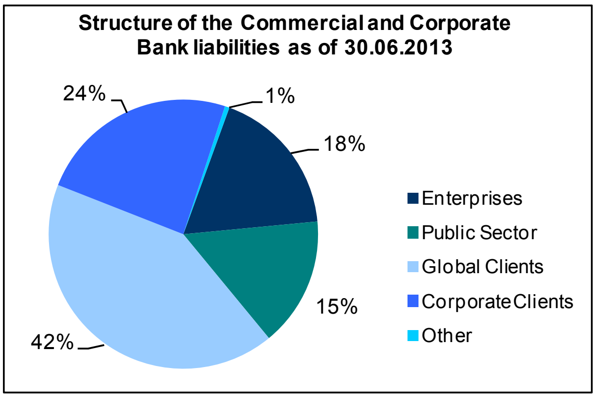
PLN million	30 Jun 2013	31 Dec 2012	30 Jun 2012	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises*, including:	3,390	3,133	2,967	257	8%	423	14%
SMEs	1,567	1,491	1,510	76	5%	57	4%
MMEs	1,823	1,642	1,457	181	11%	366	25%
Public Sector	136	101	129	35	35%	7	5%
Global Clients	4,135	4,165	3,470	(30)	(1%)	665	19%
Corporate Clients	2,311	2,778	1,882	(467)	(17%)	429	23%
Other**	264	323	601	(59)	(18%)	(337)	(56%)
Total Corporate and Commercial Bank	**10,236**	**10,500**	**9,049**	**(264)**	**(3%)**	**1,187**	**13%**

Liabilities

PLN million	30 Jun 2013	31 Dec 2012	30 Jun 2012	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises*, including:	2,928	2,969	2,982	(41)	(1%)	(54)	(2%)
SMEs	2,097	2,224	2,231	(127)	(6%)	(134)	(6%)
MMEs	831	745	751	86	12%	80	11%
Public Sector	2,537	3,110	2,096	(573)	(18%)	441	21%
Global Clients	6,841	8,147	5,924	(1,306)	(16%)	917	15%
Corporate Clients	3,924	2,860	3,107	1,064	37%	817	26%
Other**	90	54	72	36	67%	18	25%
Total Corporate and Commercial Bank	**16,320**	**17,140**	**14,181**	**(820)**	**(5%)**	**2,139**	**15%**

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).*
*** "Other" includes, among others, clients under restructuring and clients of Handlowy Leasing Sp. z o.o. who are not clients of the Bank.*





<u>Key transactions and successes of the Corporate and Commercial Bank in the first half of 2013:</u>

- The Bank signed the following financing agreements with corporate customers:
  - A reverse factoring facility agreement with a customer from the FMCG industry, for a total value of PLN 30 million. Under the agreement, the Bank will finance debt of suppliers selected by the customer and pay customer's liabilities before maturity;
  - a supplier financing agreement for a mining customer, for a total amount of PLN 100 million;
- As part of debt securities, the Bank closed, among other things, the following transactions with corporate customers:
  - The Bank placed bonds of a customer from the financial sector; the bonds were worth PLN 500 million;
  - The Bank signed a debt issue agreement for a financial sector customer, for up to PLN 3.5 billion;
  - The Bank signed a bond issue agreement for a mining sector customer, with the Bank's exposure of PLN 122 million;
- The Bank conducted among other things the following transactions with clients in the Global Clients segment:
  - Debt discount worth PLN 315 million for one of the leading companies in the fuel sector;
  - PLN 65 million overdraft loan worth for an international manufacturer and supplier of agricultural, financial and industrial products and services;
  - An increase in the supplier financing program to PLN 400 million for the owner of the largest retail chain in Poland;

- A guarantee for the infrastructural project in the railway industry, for an amount of PLN 70 million;
- Advisory services on acquisition of Kredyt Bank by BZ WBK – one of the largest transactions in the Polish banking sector;

- As part of the Emerging Market Champions program (for local corporate and global customers, which provides financial support and services necessary for international expansion), the Bank won the tender procedure for bank services supplied to a local company in the fuel sector and acquired a customer in the engineering and construction sector in the segment of Global Customers;
- In the first half of 2013 customer assets of the Commercial Bank grew by 8% compared to the end of 2012 and 14% YoY. Among other things, this was the result of financing deals completed in the first half of 2013, such as an overdraft loan worth PLN 50 million for a university, a long-term loan worth PLN 48 million for the manufacturer of office and shopping furniture, a revolving loan worth PLN 32 million and an overdraft loan worth PLN 16 million granted to a manufacturer of ready textile products, a revolving loan worth PLN 30 million for customers in the machine repair and maintenance customer, factoring worth PLN 30 million for a customer in the railway sector, a credit promise of PLN 30 million for a manufacturer of plastic packaging, a long-term loan of EUR 5 million for a household product manufacturer, an increase in the current financing by PLN 20 million in the form of an overdraft loan for a shoes company, an increase in overdraft exposure of the Bank by PLN 20 million for an IT hardware distributor, an overdraft loan of PLN 20 million granted to a leader in the industrial building and facility cleaning; an overdraft loan of PLN 20 million granted to a public sector entity, a revolving loan worth PLN 7.5 million, a trade loan worth PLN 7.0 million, a credit limit for FX hedging transactions at PLN 3.6 million and a long-term loan with a subsidy at PLN 2.8 million for a customer dealing in the wholesale of metal articles, a multi-purpose facility of PLN 20 million granted to a seller of chemical products;

  The program pursued under the project financing agreement signed in December 2012 with KfW (*Kreditanstalt für Wiederaufbau*) was very popular in the first half of 2013; the program was aimed at improving the energy efficiency of customers in the Commercial Bank. As part of the program, customers utilized a considerable part of their limits, and further transactions are underway;
- Customer acquisition:
  - The Bank acquired 432 customers in the Commercial Bank, including 62 MMEs, 247 SMEs and 123 public sector entities;
  - The Bank acquired 12 customer relations in the Global Clients segment and won a tender procedure for complete service for a global customer in the automotive industry.

3.2.2 Treasury achievements

In the first half of 2013 the Treasury recorded one of the top results in its history.

In February 2013, Citi Handlowy was officially recognized for its achievements on the Treasury BondSpot Poland market, namely for being active during fixing sessions and for reaching the highest turnover in 2012.

In March 2013, through Dom Maklerski Banku Handlowego S.A. (the Brokerage House), the Treasury started listing securities on the WSE, and thus gained a new transaction channel for distributing securities to all stock exchange participants and for supplying additional liquidity in this market.

In a ranking published in May 2013 by the prestigious Euromoney magazine, Citi Handlowy took the first place – for the fifth time in a row – in corporate FX turnover. Citi Handlowy's market share in Poland was 36% in this category, over 24% more than the score of the next best competitor in the second position. The ranking is developed on the basis of a market share estimated with data collected from clients-respondents. This international study, backed by more than thirty years of tradition, enjoys an exceptional reputation in the financial community.

The volume of transactions in Treasury bonds with financial institutions in the first half of 2013 grew by 8% compared to the same period of in the previous year.

The Bank remained a leader in arranging issues of bonds and certificates of deposit for banks. According to the Rating&Market report by FitchRatings, as at the end of June 2013 the Bank had 28% share in that market.

In 2013, the Bank ranked first in the overall ranking of the contest for the 2014 Treasury Securities Dealer organized by the Polish Ministry of Finance.

3.2.3 Transactional services

The Bank is a leading transactional banking service provider in Poland. The scope of transactional banking products and services includes:

- Financial management products: deposits and current accounts, liquidity management solutions, micropayments, e-banking;
- Card products;
- Payments and receivables: Direct Debit, Speedcollect;
- Cash products;
- EU advisory services;
- Trade finance products.

One of the strategic directions of the Bank's development is to strengthen the relationship with the largest companies in Poland, leaders of their sectors, which is to result in Citi Handlowy being ranked as the bank of the first choice among such customers. The extensive offer of transactional services provides key customers with comprehensive service, from liquidity management in capital groups, to services comprising payments and receivables to financing of suppliers and distributors.

In the first half of 2013, the Bank ran a promotional campaign among SME customers to popularize four packages of transactional products: management of payments and receivables, employee service, trade financing and energy efficiency. The campaign was aimed at building a lasting relation with customers by learning their individual needs and offering service tailored to their operating profile. During the meetings, experts of the Bank presented the customers with the options of process optimization, effectiveness improvement and increase in savings as a result of applying fund management and trade financing solutions. By the end of the first half of 2013 there were more than 1,400 meetings during two stages of campaigns in Poland. Another stage is scheduled to take place in Q3 2013. The campaign resulted in a two digit increase in revenues from customers whom the campaign was addressed to.

A measurable effect of activating customers acquired in recent months, both major corporations as well as SMEs, is the clear growth of balances and the accounts becoming more operational. In the first half of 2013, the balances of corporate current accounts grew by 27% compared to the previous year, while trade finance assets measured by the increase in assets grew by 43%.

The process of activating and acquiring new customers is strengthened by the constant scaling-up of technological platforms used by the customers to communicate with the Bank. The number of CitiDirect and CitiDirect EB application users has reached nearly 15,000. The CitiDirect Mobile service, which allows customers to access bank accounts from mobile devices, has become increasingly more popular. 11,000 users have access to this service.

A new functionality was added to the Citi Trade Portal: the customers can use this application to enter orders concerning import letter of credits. This implementation of the new module of the Citi Trade Portal contributes to the strategy of enhancing and promoting trade finance products in the transactional service offer of the Bank.

Deposits and current accounts

Current account is the basis for full use of the services the Bank offers. One of the most important elements of pursuing the Bank's strategy is focusing on acquiring and servicing operating accounts – i.e. bank accounts hosting the crucial part of operational cash flow of their owners.

Cash put by clients in current accounts, which is not used to finance current activities, may be placed in term deposits. In addition to term deposits, the Bank's offer includes negotiable deposits, automatic deposits and blocked deposits.

Liquidity management products

Liquidity management structures are advanced instruments that optimize flows within one capital group. The liquidity and cash management offer of the Bank provides the possibility of optimal management of financial surplus in over-liquid companies and enterprises with increased demand for capital. The liquidity and cash management product range includes, among other things:

- actual cash pooling;
- virtual cash pooling;
- net balance.

By using these liquidity management structures, clients benefit as they reduce their overall debt and costs of serving the same with no financial liquidity risk.

MicroPayments

The Bank continued to strengthen its leading position in the market segment in which it offers the MicroPayments product. In the first half of 2013 the Bank acquired a number of institutions which decided to use the solution offered by the Bank. MicroPayments are used by entities which accept cash deposits from various payers and are obliged to return them together with accrued interest. The MicroPayments product also supports calculation of historical interest value, i.e. allocation of interest amounts to respective past deposits placed by the payer. This product is currently used primarily by courts and prosecution administrations. MicroPayment services are also offered to clients from beyond the public sector: this solution of the Bank is an excellent tool for tender procedures.

At the end of the first half of 2013, the value of deposits served by MicroPayments was 46% higher compared to the same period of 2012.

Electronic banking

Significant information about electronic banking in the first half of 2013:

- The number of transactions processed electronically through the CitiDirect and CitiDirect Banking Evolution systems totaled over 13.5 million in the first half of 2013;
- The number of corporate customers actively using the system was maintained at a constant high level of nearly 4,500;
- At the end of the first half of 2013, the number of corporate customers activated in CitiDirect amounted to 11,700, and in CitiDirect EB to 2,500;
- At the end of the first half of 2013 the number of customers using mobile access to both online banking systems was over 2,000. From January to June 2013 customers performed more than 6,000 operations.

Card products

Business cards are a major part of transactional service offering of the Bank. In the first half of 2013, as part of the sales campaign addressed to SME customers, card products were promoted as a part of the “employee service” package. During direct meetings, representatives of the Bank analyzed processes in the companies and proposed solutions of the Bank and shared their knowledge about the best market practices. The meetings were aimed at improving effectiveness of employees service and business expense management processes. An increase in card transaction volume and a growth in the number of cards was recorded among customers covered by the campaign. The Bank intends to continue the campaign in the second half of 2013.

Direct Debit

The Bank provides its clients with comprehensive debt management services. One of the segments of this service market is the direct debit market. In the first half of 2013 the Bank strengthened its leading position in the market by settling the highest number of transactions as a creditor's bank and reached the record 40% share in the market.

SpeedCollect

SpeedCollect is a service for creditors – mass payment recipients – enabling the automatic posting of receivables. In the first half of 2013 the Bank maintained its leading position in the market in terms of the number of processed volume of transactions.

The Bank completed customer migration to the new system for SpeedCollect products and direct debit. It is the third generation system, which supports fast execution of customer projects. This is facilitated by the three layer system architecture and independent, parallel information processing for each customer and high system scalability.

Domestic transfers

In June 2013 the National Bank of Poland launched SORBNET2 clearing system. The system keeps current accounts of banks and clears interbank payments in zlotys. The system replaced the SORBNET system, which had operated since 1996. The change required all market participants, including the Bank, to migrate simultaneously among the payment platforms.

The SORBNET2 system is the primary Polish payment system for clearing of money policy operations, interbank transactions from the financial market and high amount customer orders, as well as operations from other payment systems.

Not only did SORBNET2 modernized the Polish RTGS system, but also improved its operational security. The switch to solutions offered by the SWIFT international telecommunication network and application of new technological solutions improves reliability of system operations and system effectiveness, consequently leading to improved security and effectiveness of the interbank operations. The change of the NBP system did not affect functional conditions of performing customer payments.

Foreign bank transfers

In the first half of 2013 the Bank saw a record volume of processed foreign transactions, which was 10% higher compared to the first half of the previous year.

The higher number of customer transactions was the result of the competitive product offering, in particular the quality of processes and the wide range of handled currencies. The Bank provides the customers with the option to make settlements in more than 20 base currencies (including e.g. the Chinese yuan), as well as in exotic currencies, such as the Indian rupees or the Brazilian real.

Cash products

The Bank provides its clients with comprehensive cash management services. The highest volume of cash transactions served by the Bank are over-the-counter deposits made by clients. The majority of such payments is made in the closed form. Closed payments may be delivered to a Bank's location and cash handling centers (sorting facilities), which cooperate with the Bank.

Cash payments can be made directly to customer accounts in the Bank. However, given needs of the customers relating to automation of cash flows management processes and proper identification of payments from various locations of customers or individual payers, the Bank also provides the customers with the option to make cash payments to virtual accounts. As a result, information necessary for proper identification of the payment is included directly in the account number, which minimizes the risk of incorrect (non-identifiable) receipts.

In addition to over-the-counter deposits, the Bank's customers also use cash withdrawals – both traditional over-the-counter withdrawals, and sealed cash packages.

The Bank also provides services designed for a more restricted group of clients, such as replacement cash services and replacement branch services, directed at the public sector. Increasingly popular are currency purchase and sale services offered to other banks (so-called providing).

One of the most important operating directions of the Bank as regards cash processes are continuous actions aimed at optimization of such processes, and thus reducing the cost base with regard to the unit of processed cash volume. In the first half of 2013, compared to the same period of the previous year, the cost effectiveness of cash solutions grew by 3%.

EU advisory

In the first half of 2013, the activities of the EU Office were mainly focused on promoting the offer of the new program of financing investments which improve the energy efficiency. This project builds on cooperation between the Bank with Kreditanstalt fur Wiederaufbau (KfW). The SME Energy Efficiency Program and the Municipal Energy Efficiency Program are programs in which the KfW bank, on behalf of the European Commission and in cooperation with the Council of Europe Development Bank (CEB), provides funds and expertise facilitating energy efficiency investments of SMEs and public sector entities. KfW programs are designed to encourage participants to invest in energy efficiency and prompt banks in the program countries to add energy efficiency investment finance to their offers.

As a positive result of such actions, agreements were signed with customers for the total amount of over EUR 10 million.

Trade finance products

In the first half of 2013, the Bank continued its strategy of dynamically developing trade finance. The key elements of the offer include financing of trade receivables through factoring and trade credit.

The growing popularity of trade finance services translated to a strong increase in assets. The value of trade assets was 58% higher at the end of the first half of 2013 than the value recorded at the end of the first half of 2012.

Such a staggering increase in assets was possible due to continuous development of factoring products, including Supplier Financing Programs and the fast expansion of the trade loan product introduced in 2012. In the first half of 2013 finalized trade finance transactions reached a double-digit figure, and were worth more than PLN 150 million. In addition, several new Supplier Financing Programs were implemented for the largest customers of the Bank, for the total amount of PLN 200 million. In addition, one of the key successes in this area is expansion of the program for one of the largest shopping chains in Poland to PLN 400 million, which resulted in a considerable increase in turnover with that customer

In order to promote long-term trade finance products, such as financing of imported investment purchases, at the end of April the Bank prepared workshops for its customers, entitled “Polish energy: investments and sources of financing”. The issues discussed were methods of financing comprehensive energy projects, in particular financing based on collateral provided by the Export Credit Agencies, ECA.

In the past half of the year, the Bank continued to promote trade service products. The option to place orders for trade finance services on the electronic platform called the Citi Trade Portal made the Bank’s offer significantly more attractive and enabled it to further improve its strong position in this area. The implemented functionalities comprehensively support the product, which involves drawing up an application for opening the letter of credit and applications related to servicing the open letter of credit, checking the regularity of the application during its writing, information about the available limit, communicating with the Bank’s experts directly through the platform, complete information about transactions in the form of statuses and reports, text message and e-mail notifications. Customers also have access to individual prices and application processing times.

In addition, in the trade finance sector, the Bank won a deal for the entire guarantee package for a large entity in the building and construction industry, with a total value of PLN 95 million.

3.2.4 Custody services

The Bank is a leader among custodian banks in Poland. It offers custody services to foreign institutional investors and domestic financial entities, in particular pension funds, investment funds and unit-linked insurance plans.

As part of its statutory activities provided on the basis of a permit from the Securities and Exchange Commission (currently the Polish Financial Supervision Authority), the Bank operates securities accounts, collective accounts, clears securities trades, executes 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, which includes mediation in clearing transactions of domestic clients in foreign markets.

In the reporting period the Bank maintained its position of a market leader in clearing of securities transactions executed for the benefit of remote members of WSE and of BondSpot S.A. Also, the Bank participated in clearing of transactions executed by institutional clients on the electronic debt securities trading platform operating under the trade name of Treasury BondSpot Poland, organized by BondSpot S.A.

As at 30 June 2013, the Bank managed more than 12,000 securities accounts.

At the same time, it served the role of a custodian bank for five open-end pension funds: Amplico OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE and Nordea OFE; five optional pension funds: MetLife Amplico DFE, Nordea DFE, Generali DFE, ING DFE, DFE Pekao and two company pension funds: Pracowniczy Fundusz Emerytalny PZU "Słoneczna Jesień", Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A.

The Bank was a custodian bank for investment funds managed by the following Investment Fund Companies (TFI): BZ WBK TFI S.A., PKO TFI S.A., Pioneer Pekao TFI S.A., Legg Mason TFI S.A. and Aviva Investors Poland TFI S.A.

3.2.5 Brokerage activities

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 2013, DMBH acted as a broker in 12.6% of shares trading on the secondary market which made it the leader of the market. The session and block transactions concluded through DMBH on the WSE equity market were worth PLN 34 billion, an increase of 45% compared to the corresponding period of the previous year, while the turnover on the WSE rose by 28.8% in the period.

At the end of the first half of 2013, DMBH kept 8,800 investment accounts, 8% fewer than at the end of the first half of 2012 and 2% fewer than at the end of Q1 2013. This drop in the number of accounts was mainly due to closing the accounts of inactive customers and accounts opened for customers in Order Taking Centres of the Bank, who closed their personal account in the Bank.

At the end of the first half of 2013 DMBH was the Market Maker for 32 companies, nearly 9% of all the shares listed on the WSE in the primary market. For another consecutive time, the number of companies for which DMBH is the market maker puts it among the leading brokerage houses performing this function on the WSE. In addition, DMBH performed the same function in respect of futures for the WIG20 index and those for the shares of PZU, PKO BP, Pekao and PKN.

In the first half of 2013, DMBH carried out the following transactions on the equity market:

- NG2 S.A. – DMBH was the Exclusive Book Runner for a transaction to sell a block of shares worth PLN 140 million (January 2013);
- PKO Bank Polski S.A. – DMBH played the role of the Global Joint Coordinator and Joint Book Runner for an accelerated sale of a block of shares held by the State Treasury of the Republic of Poland and worth PLN 5.2 billion (January 2013);
- Bank Pekao S.A. – DMBH played the role of the Joint Book Runner for an accelerated sale of a block of shares held by Unicredit SpA and worth PLN 3.7 billion (February 2013);
- Polski Holding Nieruchomości S.A. – DMBH played the role of the Global Joint Coordinator and Joint Book Runner for the initial public offering of Polski Holding Nieruchomości S.A. worth PLN 238.6 million (February 2013);
- Bank Zachodni WBK S.A. – DMBH played the role of the Global Joint Coordinator and Joint Book Runner for the secondary public offering of the company, which covered the sale of the block of shares held by KBC Bank NV and Banco Santander S.A. worth PLN 4.9 billion (March 2013);
- Dexia Kommunalkredit Bank Polska S.A. – DMBH acted as the intermediary in a private transaction whereby Getin Noble Bank S.A. bought shares worth PLN 57.1 million (March 2013);
- Grupa Azoty S.A. – DMBH played the role of the Global Joint Coordinator and Joint Book Runner for

an accelerated sale of a block of shares held by the State Treasury of the Republic of Poland and worth PLN 626 million (April 2013).

Summarized financial data as at 30 June 2013*

Company	Headquarter	% of authorized capital held by the Bank %	Total assets 30 Jun 2013 PLN'000	Shareholders' equity 30 Jun 2013 PLN'000	Net financial result for 1 Jan – 30 Jun 2013 PLN'000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	1,192,854	110,178	21,589

** Unaudited data*

3.2.6 Leasing activities

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

On 19 March 2013, the Bank Supervisory Board approved the directions of the leasing business strategy assuming the limitation of the leasing activity. As the HL's significance within the Bank Group has been decreasing – its share in the Group's revenue has been declining systematically since 2010 and has now fallen below 1% – on 19 March 2013 the Management Board of the Bank decided to limit the leasing business within the Bank Group. The leasing product has remained in the offer of the Bank, however it is offered as part of the "open architecture", i.e. in cooperation with entities outside the Bank's Group.

On 20 March 2013, the Extraordinary General Meeting of Handlowy-Leasing resolved to restrict the HL's leasing business only to performing under leasing agreements concluded on or before 30 April 2013. No new lease contracts were concluded after that date by HL. The goal of the HL is to continue performance of existing contracts, maintaining the service quality and ensuring process continuity and the economic efficiency in its business.

In June 2013 the Bank extended its offering for customers in the corporate and enterprise sector to include lease services provided under the cooperation agreement by two partners: Europejski Fundusz Leasingowy and CorpoFlota Sp z o.o.

Summary financial data as at 30 June 2013*

Company	Headquarter	% of authorized capital held by the Bank %	Total assets 30 Jun 2013 PLN'000	Shareholders' equity 30 Jun 2013 PLN'000	Net financial result for the period of 1 Jan – 30 Jun 2013 PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	504,195	144,774	9,575

** Unaudited data*

4. Consumer Bank

4.1 Summary segmental results

PLN'000	1st half of 2013	1st half of 2012	Change	
			PLN'000	%
Net interest income	339,422	390,381	(50,959)	(13.1%)
Net fee and commission income	170,720	172,245	(1,525)	(0.9%)
Dividend income	2,931	3,714	(783)	(21.1%)
Net income on trading financial instruments and revaluation	16,488	18,563	(2,075)	(11.2%)
Other operating income	(9,974)	(12,307)	2,333	(19.0%)
Total income	**519,587**	**572,596**	**(53,009)**	**(9.3%)**
General administrative expenses and depreciation	(371,477)	(437,786)	66,309	(15.1%)

PLN'000	1st half of 2013	1st half of 2012	Change	
			PLN'000	%
Profit/loss on sale of non-financial assets	70	21	49	233.3%
Net impairment losses on financial assets and provisions for financial and guarantee liabilities	39,584	(26,230)	65,814	-
Profit before tax	**187,764**	**108,601**	**79,163**	**72.9%**
Cost/income	**71%**	**76%**		

The main factors that determined gross profit of Consumer Bank in the first half of 2013, as compared to the corresponding period of 2012, were:

- a drop in interest revenues resulting from a decrease in credit card interest rates (in total by 7 percent points in the first half of the year compared to the first half of 2012) following changes in market interest rates, partly compensated by the drop in interest expenses. A decrease in interest costs was achieved, despite the considerable growth in the deposit balance, as the result of interest reduction, mainly applied to term deposits and a favorable change in the structure of the deposit portfolio (an increase in the share of demand deposits and reduction in term deposits);

- a small decrease in the net fee and commission income, mainly in the area of credit cards following a change in the interchange fees by card organizations effective since January 2013. At the same time, there was an increase in the volume of transactions, which partly compensated the decrease in revenues caused by the drop in the interchange fees. In addition, the increase in sales of investment products and elevated interest in foreign funds positively affected the net fee and commission income;

- a drop in operating expenses as a result of restructuring carried out in 2012 in connection with optimization of the network of branches and related support entities at the head office (including PLN 37.9 million of restructuring provision in the first half of 2012). At the same time, in the first half of 2013 there was a drop in the costs of advertising and marketing in connection with a strategic reduction in marketing expense for the mass segment in the retail area, with simultaneous increase in marketing spending for Gold and Gold Select clients;

- reversal of net impairment losses on financial assets at PLN 39.6 million compared to PLN 26.2 million net impairment losses in the first half of 2012. The improvement in net impairment losses was the result of continued positive trend of improvement in the portfolio quality and related release of provisions. Furthermore, in Q2 2013 a part of retail exposures (receivables related to cash loans and credit cards) with recognized impairment at PLN 148.8 million (98% out of which were written off the Bank's balance sheet) was sold for PLN 23.3 million.

4.2 Selected business data

	1st half of 2013	1st half of 2012	Change
Number of individual customers	845,322	949,822	(104,500)
Number of current accounts, including:	585,469	667,390	(81,921)
number of operating accounts	177,586	183,642	(6,056)
Number of operating accounts newly acquired in the period	33,383	41,284	(7,901)
Number of savings accounts	197,056	220,738	(23,682)
Number of credit cards, including:	791,205	819,701	(28,496)
co-branded cards	471,584	471,434	150
Number of active credit cards	712,375	738,517	(26,142)
Number of debit cards, including:	453,955	462,444	(8,489)
PayPass cards	413,445	377,824	35,621

4.3 Business highlights

Credit cards

At the end of the first half of 2013 there were 791,200 credit cards.

According to the data available at the end of Q1 2012, the Bank kept its leading position on the credit card market in terms of transaction value, with a market share of 21.9%. The Bank also remained the market leader by the value of credit card balances with a market share of 18.6% at the end of June 2013. In addition, based on figures for the first half of 2013, the Bank had a 42.5% market share in terms of foreign transactions made with credit cards.

In order to make the offer more attractive to Citi Handlowy cardholders, the Bank launched a special “Hotel Privileges Program”, which provides discounts and special privileges in the top hotels all over the world. It is the first Citigroup global program available to individual customers in Poland as part of the strategy aimed at globalization of the Citibank credit card offering in Poland.

Acquisition of credit cards in the first half of 2013 was maintained at the stable level despite adverse macroeconomic conditions, and recorded a 19% increase compared to the same period of the previous year. The best selling cards were Citibank World MasterCard and Citibank Wizz Air World MasterCard, which accounted for nearly 90% of total sales. In the first half of 2013 the Bank made intense efforts to develop new distribution channels, paying particular attention to remote and external channels.

Bank accounts

- **Current accounts**

At the end of the first half of 2013 the number of personal accounts exceeded 585,000 (667,000 at the end of June 2012). 393,000 of them were Polish zloty accounts, and 192,000 were foreign currency accounts. The total balance in accounts exceeded PLN 2.5 billion versus PLN 2.4 billion at the end of June 2012.

- **Savings accounts**

The Bank held 197,000 savings accounts at the end of the first half of 2013. The total balance of funds in the savings accounts was approx. PLN 3.3 billion, compared to 221,000 savings accounts with the total balance of PLN 2.5 billion in the corresponding period of the previous year.

- **Changes in the offer**

In accordance with the strategy adopted last year, the Bank focused its sales efforts on the group of customers from CitiForward, Citigold and Citigold Select segments who actively use the Bank's services. A savings offering was developed in response to the needs of this group of customers. Interest rates for the lower amounts were increased in the SuperSavings Account to address the needs of the CitiForward customers. Interest rates of the Savings Account for Citigold customers were diversified so as to additionally reward customers who keep savings with our Bank and who are interested in building an investment relationship with us. These steps yielded a significant growth of deposit balances in the first half of 2013 (a 15% increase compared to December 2012). In addition, customers paying with the card issued for the account at retail shops could participate in contests – those with the greatest number and/or value of transactions could win PLN 5,000 for shopping at Ikea.

Credit products

- **Cash loan**

As at the end of the first half of 2013, the total balance of the cash loan portfolio amounted to PLN 2.1 billion, which means a decrease of 4%, compared to the end of the first half of 2012.

At the end of June of 2013 the number of active customers with a cash loan was 68,000. In the first half of 2013, the Bank focused its activities on improving revenue efficiency from newly granted cash loans by changing the pricing structure. The Bank also ran the campaign to promote consolidation of external liabilities of borrowers, which positively affected the share of this category in the structure of loans being sold.

Since early 2013 the Bank has begun to implement the new sales model for a cash loan, which assumes leaving diversified sales through branches in favor of the centralized telephone sales. For more information on the new model see p. 45 of this report.

- **Mortgage products**

As at the end of the first half of 2013 the total balance of the mortgage portfolio amounted to PLN 1 billion, which means an increase of 33% compared to the end of the first half of 2012.

In the area of mortgage loans, the activities were focused on using internal sales channels to reach selected segments of the Bank's customers. This was reflected by the high share of Citigold customers among all the customers who took mortgage loans in Citi Handlowy.

Investment and insurance products

- At the end of the first half of 2013, the total value of investment products (including certificates of deposit, double-currency investments, investment deposits and insurance products) bought by individual customers via the Bank was 19.9% higher than at the end of the corresponding period of 2012.

  During the first half of 2013, the above funds grew by 15.7% compared to the value as at the end of 2012. This growth was mainly related to investment funds and structured products (in particular life insurance with an embedded derivative);

- In order to make the product offer more attractive with new investment opportunities, three investment funds offered by a foreign investment company were added to the offer in Q1 2013. These changes extended the debt and equity product classes (two bond funds and one share fund);

- As regards structured products, in the first half of 2013 the Bank offered 19 structured bond subscriptions as well as 2 investment life insurance subscriptions;

- In the first half of 2013, the Bank broadened its offer of investment advisory related to investment funds by launching it at all branches serving customers from the Gold and Gold Select segments;

- In addition, in June 2013 the offer was extended to include a modified version of insurance with insurance equity funds in EUR and USD - Premium Investment Portfolio. The changes aimed at improving the attractiveness of the offer related mainly to the new list of available funds and more attractive financial parameters of the product addressed to the customer.

5. Achievements of respective distribution channels

5.1 Internet, Mobile and Telephone Banking

Mobile banking

As part of popularizing mobile banking, in the first half of 2013 the Bank introduced mobile stands in all the branches, where customers of the Bank can see how to download a mobile application, learn how to use it or see the benefits of using mobile banking.

In the first half of 2013 the number of mobile banking users exceeded 31,000. The number of active Citi Mobile users, i.e. users who accessed mobile banking at least once every 30 days, was 35,000 at the end of June 2013, an increase of 85% compared to the same period of the previous year. In the first half of 2013 customers of the Bank used Fotokasa service to close nearly 9,000 transactions for the total amount of PLN 2.1 million compared to more than 600 transactions for PLN 108,600 over the same period of the previous year.

In the third quarter of 2013, the Bank plans to provide an iPad application which will allow customers to access basic information and perform operations related to their account and/or credit card and will present customer finances or the product offer of the Bank in a manner attractive to customers. User interface is not a simple adaptation of the Citi Mobile application already available for iPhones, but has been prepared from scratch for tablets.

Internet banking

In the first half of 2013, the Bank continued to work on development of electronic banking and increasing customer activity in the electronic banking channel:

- Over the past 6 months, the Bank saw a record number of website visits (more than 9.5 million; increase by 33% YoY), and a record amount of log-ons (more than 20 million) to Citibank Online;
- Transactions executed through mobile and online banking accounted for 60% of all financial transactions. The Bank recorded an increase in the number of financial transactions in such channels by 23% YoY;
- The number of active Citibank Online user, i.e. users who accessed Citibank Online at least once every 30 days, at the end of June 2013 exceeded 290,000 and grew by 4% YoY;
- The number of customers who resigned from printed bank statements in favour of electronic bank statements grew by 7% YoY.

5.2 Branch network

As at the end of the first half of 2013, the branch network of the Bank comprised 85 outlets and included L type outlets (formerly the Corporate Bank, CitiGold Wealth Management and Investment Centre) and M type outlets (former multifunctional outlets).

In connection with the new strategy aimed at developing the CitiGold segment, an additional branch classification was introduced in Q1 2013.

Depending on the type of services provided, branches were divided into the following: HUB Gold (L-type branches with zones designated for serving CitiGold customers), Blue (L and M-type branches without a separate zone for CitiGold customers), and the Investment Centre.

In accordance with the new branch division, at the end of the first half of 2013 their structure was as follows: HUB Gold: 12, Blue: 71, Investment Centre: 2.

In the first half of 2013, the Bank commenced design works to improve CitiGold customer service quality in dedicated branches. The changes are aimed at improving the sales effectiveness of products offered by the Bank, among other things by changing the management model and modifying the sales coordination model. There are also plans to increase the headcount and extend the service zones for Citigold customers.

As part of these actions, refurbishment of the CitiGold branch in Wrocław at Powstańców Śląskich 7A Street was completed. Current functionalities fully support performance of goals set in the new strategy of CitiGold segment development.

As part of network optimization, in the first half of 2013 operational activity was terminated in three branches, in Kraków, Katowice and Wrocław.

Number of branches at the end of the period

	1st half of 2013	1st half of 2012	Change
Number of outlets:	**85**	**96**	**(11)**
L-type	35	38	(3)
M-type	50	58	(8)
Other points of sale / client contact points:			
Outlets of financial brokers (Open Finance, Expander)	274	340	(66)
Airports	6	4	2
Shopping malls	36	16	20
Cash desks (Billbird and Brinks)	13	12	1
Own ATMs	113	120	(7)
Euronet ATMs with the Citi Handlowy logo*	-	1,015	(1,015)

* Following the expiration of the Euronet contract, the logo of the Bank was removed from Euronet ATMs in September 2012.

Direct and indirect customer acquisition

- **Direct customer acquisition**

The Direct Sales channel is an acquisition pillar in the Bank's sales of credit cards. In the first half of 2013 the channel improved its results in the credit card sales by 28% compared to the same period of 2012.

The Bank also successfully continued its sales strategy for the Direct Sales channel aimed at customers from the largest Polish cities, acquired by a diversified network of sales stands, namely 40 stands in shopping centres and 6 stands at airports, as well as by undertaking steps to optimize sales efficiency.

- **Citibank at Work**

Citibank at Work is a sales channel with an individual offering of deposit and credit products. This offer is addressed to employees of corporations, which cooperate with the Bank as customers of the Corporate Bank.

In the first half of 2013, Citibank at Work acquired over 260% customers more from the CitiGold segment, and nearly 1000% more customers from the Citi Forward segment than in the first half of 2012. Credit card sales was at the level similar to the first half of 2012. Sales of cash loans grew and were 175% higher than in the first half of 2012.

In the reported period, the Financial Seminars initiative was continued, aimed at widening knowledge about the market of banking services and Bank products.

6. Changes in information technology

Technology projects implemented in the first half of 2013 supported maintenance of a stable technology platform in retail and corporate banking, necessary to pursue the current strategy of the Bank and to reduce technology costs while improving the quality of offered products. IT processes in the Bank operate according to top standards, as recognized in February 2013 with the positive outcome of an ISO 20000 (IT service management) supervisory audit, an ISO 27001 audit (information security management) and ISO22301 (continuity of business plan).

In the first half of 2013 the following solutions were implemented:

- implementation of the UTP system (Universal Trading Platform) for cooperation with a new WSE transactional platform;
- migration of the B2B (Business-to-Business) network connections to a modernized B2B network infrastructure where and as required by the Bank and its clients;
- implementation of the new system SORBNET2 for settlement of high-value payments in the National Bank of Poland;
- modernization of the platform to support the Speed Collect product;
- completion of implementation of the modern RCX system and migration of all transactional channels from the RCS system being withdrawn;
- completion of the Citiconvert system migration to the new PTR system, which boosts potential for transactional data processing for corporate customers;
- provision of further products on a new innovative Trade Backend and Trade Frontend platforms for trade finance services (factoring with and without recourse, import letters of credit);
- implementation of a new Call Centre platform in the GTS CitiService area (corporate customers);
- adaptation of the Bank's systems to MasterCard Association requirements for domestic payments.

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

- upgrade of IT systems within the Consumer Bank;
- alignment of the Bank's systems to new European Union legislation: the Capital Requirements Directive (CRD) IV (Basel III) and the Regulation on OTC derivatives (EMIR);

- implementation of the integrated system CitiRisk in the Risk Management Division;
- continuation of the electronic platform development for trade finance services - implementation of further products (collections and guarantees);
- implementation project for a new version of Citibank Online, aimed at modernisation and expansion of functionalities of the Bank's online platform, along with new products and services, with a user-friendly interface;
- implementation of a new platform ECS+ for pre-paid and commercial cards of corporate customers;
- development of infrastructure and a system-wide solution to allow corporate customers to place and receive money transfers online (Express Elixir);
- replacement of main systems to support works of the Treasury: Kondor+, Call Manager for eDealer systems, Sonar to reduce the costs of development, operation and unification of platforms with regional partners;
- implementation of SIP in other branches of the Bank to support use of central telephone lines in Warsaw instead of local lines in the branch in order to optimize the operational support model and telecommunication costs;
- Desktop Optimization Initiative – improving the efficiency and optimizing the computer environment in the Bank; use of environment virtualization in order to reduce costs and enhance data security in the future.

7. Equity investments of the Group

All equity investments of the Group are divided between the strategic investment portfolio and the divestment portfolio. In the first half of 2013, the Group 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 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 investment 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 Group expands its product offering and which bring prestige to the Group's operations and strengthen its competitive position in the Polish market of financial services (Dom Maklerski Banku Handlowego S.A.). Strategic companies also include infrastructure companies providing services for the financial sector, 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) and Biuro Informacji Kredytowej S.A. (Credit Information Bureau).

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The Bank's overriding objective in the exercise of its corporate governance prerogatives over these companies is to ensure their stable development and continuation of their present operations which the participants of the financial market, including the Bank, rely on.

7.2 Divestment portfolio

The divestment holdings are entities in which the Bank's investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic objective of the Bank with regard to companies in the divestment portfolio is to gradually reduce the Bank's investment. The assumption is that individual participations will be sold or liquidated whenever market conditions are most favorable. 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 divestment portfolio may grow by possible acquired exposure if the Bank chooses to convert its debt to equity.

8. Other information about the Group

8.1 Awards and honors

In the first half of 2013, the Bank, its brokerage house (Dom Maklerski Banku Handlowego S.A.) and the Kronenberg Foundation received a number of prestigious titles and awards:

- Citi Handlowy for the fifth consecutive year was rated first in an FX ranking compiled by British magazine **Euromoney** with the highest score in FX trade with corporate customers. The Bank had a result nearly twice as good as the runner-up. The Bank also retained its leading position in the corporate and financial institutions segment, where it won for the third year in a row;
- Citi Handlowy was awarded the **ISO 14001 certificate** as the first bank in Poland and thus fully certified its environmental management system. Along with the bank, the certificates were awarded to Dom Maklerski Citi Handlowy and Citi Service Centre. The certificate was issued by the British Standard Institute and confirms a high level of environmental management. It covers both actions related to financial services, as well as the current operational activity;
- Top Rated, namely the highest rate was awarded to Citi Handlowy in the top category of Leading Clients, a regular survey into customer opinions by the prestigious **Global Custodian Magazine.** The Magazine awarded the Bank for the custodian services in Poland in the annual ranking based on customer score from all over the world. In the Cross-Border Non Affiliated (medium-sized and smaller customers) category, Citi Handlowy received a Commended rating;
- For the third time in the row, Citi Handlowy was awarded a prestigious **Top Employers** certificate. Thus, it accessed the group of organization of the highest HRM standards (Human Resources Management). As in previous years, an independent survey by the Corporate Research Foundation (CRF) verified key areas of personnel management, such as training and development, working conditions and corporate culture, or remuneration and benefits;
- Citi Handlowy was recognized by the **Warsaw Stock Exchange** for its achievements on the Treasury BondSpot Poland market, and received two awards for being active during fixing sessions and for reaching the greatest turnover in the cash market. For the fourth time in the row, the WSE awarded Dom Maklerski Citi Handlowy for the highest share in 2012 in session trading in shares and rights in shares in the Primary Market without the market maker transactions. For the first time, the WSE awarded activities of DM Citi Handlowy in the Catalyst market for the highest share in session trading in corporate and municipal bonds;
- The Kronenberg Foundation Program at Citi Handlowy and Women's Rights Centre "Building Financial Independence of Women" was named among 10 best practices awarded in the **"Let's build social capital together" competition.** The goal of the competition is to underline benefits of cooperation between the world of business and NGO sector. It is a part of a project pursued by the Polish Confederation of Private Employers Lewiatan and Deloitte on the platform of cooperation between the NGO sector and the business world. In addition to 10 best practices, 26 projects were recognized, including 6 projects coordinated by the Kronenberg Foundation at Citi Handlowy;
- Results of the **7th edition of the Dziennik Gazeta Prawna Responsible Companies Ranking** were published in 23 April. Citi Handlowy listed in the ranking since the first edition, ranked high in its industry (banking, financial sector and insurance), at number two. In the overall ranking, the bank was listed 12th, as in the previous year. The Responsible Companies Ranking was published for the seventh time and is one of the most prestigious rankings of this kind in Poland. To date, a total of 150 companies took part in all of its editions. In this year's edition, the survey was sent out to the largest entities in the Polish market, which were asked to provide answers to 60 questions in five CSR areas: responsible leadership, communication with stakeholders, social involvement, responsible management and social innovativeness. The survey is modified each year, subject to changes in the market. A total of 10 points is available in each area – this means that all areas are treated equally;
- 10 CSR initiatives of Citi Handlowy were recognized by the Responsible Business Forum in the **11 edition of "Responsible Business in Poland. Good Practices"** report. The report has been

published since 2002 and is the only report of its kind, as it summarizes the most important issues related to business actions in the area of the CSR;

- **Respect Index** - Citi Handlowy was named on the Respect Index for the sixth time. **It is one of two banks which are regularly listed since the first edition of the index.** RESPECT Index is the first responsible company index in the Central and Eastern Europe. A company to be listed in the ranking must meet high standards of corporate governance, information governance and investor relations.

8.2 Cultural patronage and sponsorship

In the first half of 2013, Citi Handlowy sponsored several national and international conferences. It was a partner of the **5th European Economic Congress in Katowice** (13-15 May) **CEE IPO Summit** which took place at the Warsaw Stock Exchange (6-7 June), and the **Leviathan Awards Gala** on 25 May at the National Philharmonics in Warsaw. The honorary guest of the Gala was President of the Republic of Poland Bronisław Komorowski.

Citi Handlowy was also the **patron of the exhibition of Marek Rothka works** (6 June – 1 September) at the National Museum in Warsaw.

8.3 The Bank's community initiatives

The social responsibility mission is coordinated by the Kronenberg Foundation that acts on behalf of the Bank in support of work for the common good. In the first half of 2013 the activities of the Foundation were focused on coordination of financial education programs, protection of the national cultural heritage and coordination of voluntary activities performed by employees of the Bank for those in need.

Various programs were performed as follows:

- **From Penny to Pound (Od Grosika do Złotówki):** The first program in Poland focused on financial education targeted at primary school students. The program is carried out in collaboration with the Junior Achievement Foundation Poland (Fundacja Młodzieżowej Przedsiębiorczości). In 2013 the program is pursued in cooperation with PZU. In the first half of 2013, 14,000 students, 21,000 parents and 600 teachers took part in the program;

- **My Finances (Moje finanse):** The largest financial education program for the youths in Poland. The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Foundation of Entrepreneurship of Young People. In the first half of 2013, 129,000 students participated in the program implemented by 1,500 teachers;

- **Building Financial Independence of Women:** A program for women who are economically excluded or at risk of exclusion. The program is implemented in collaboration with the Women's Rights Centre. The first edition was ran in September 2012. 600 women took part in the first edition;

- **Business Startup Program:** A national program targeted at students and graduates planning to open a business. The program is implemented in collaboration with Academic Incubators of Entrepreneurship. The first edition of the program started in November 2012, with 450 young entrepreneurs;

- **Be Enterprising:** Financial education program targeted at middle and secondary school students. The program is carried out in collaboration with the Junior Achievement Foundation (Fundacja Młodzieżowej Przedsiębiorczości). The goal of the project is to pass down knowledge about widely understood enterprise and develop skills and competencies in this area by fulfilling practical student projects (middle schools) and establish and run a general company (secondary schools). 9,000 students from 300 schools participate in the program.

- **Saving Week (Tydzień dla Oszczędzania):** An education action in the media. It promotes savings and the skills of rational management of personal finances among Poles. The campaign is carried out by the Kronenberg Foundation together with the Think! The peak point of the campaign is each October;

- **Micro-Company of the Year 2012:** A competition for micro-company owners. The competition promotes the philosophy of micro-entrepreneurship. The results of the competition were announced on 20 June 2013. The competition was won by Digital Core Design, a manufacturer of the fastest CPUs in the world;

- **Award of Bank Handlowy w Warszawie S.A.** for outstanding contribution to development of economics and finance – this competition aims to promote the most valuable publications devoted to the theory of economy and finance. The award will be officially presented in October. A record number of 40 applications was received in the first half of 2013;

- **Professor Aleksander Gieysztor Award (13th edition):** The most prestigious award given annually to institutions or individuals in recognition of their efforts for protection of the Polish cultural heritage. The 14th edition was won by Anda Rottenberg, an arts critic. The awards were presented on 13 February 2013 on the Royal Castle in Warsaw;

- **Recovering works of art:** A new program for the recovery of works of art lost by Poland during and as a result of WW II. The program was launched in June 2012. In the first half of 2013 Citi Handlowy Kronenberg Foundation in partnership with the Ministry of Culture and National Heritage continued cooperation aimed at recovery of the lost works of art;

- **Roots (Korzenie):** A program under which the Foundation remembers the history of the Bank and the profile and achievements of its founders, the Kronenberg family. As part of the activities pursued in the first half of 2013, the Citi Handlowy Kronenberg Foundation in cooperation with the National Bank of Poland hosted an annual conference, The European Association for Banking and Financial History, entitled *Foreign Financial Institutions and National Financial Systems,* attended by more than 200 guests, including representatives from many European banks and academic scholars from renowned international scientific centers. The Foundation has also participated in another EABH project, Archival Legislation for Finance in Europe. This program is aimed at developing proposals of changes in the archive law to improve protection of heritage of financial institutions in Europe. Queries were continued and new copies of archive materials related to activities of the Kronenberg Family and Bank Handlowy were obtained;

- **Employee Volunteer Program in Citi Handlowy:** Aims to encourage community initiatives of the Bank's current and former employees. In the first half of 2013, a total of 140 volunteer projects were completed (including projects fulfilled as part of the Global Community Day), and volunteers (also from outside the organization) were involved 1,800 times.

- **Grant Program:** A contest through which the Citi Handlowy Kronenberg Foundation supports the most valuable projects carried out by non-profit organizations in the area of education and local development. 18 grants worth more than PLN 500,000 were awarded in the first half of 2013.

- **More Trees Thanks to You (Więcej drzew dzięki Tobie):** A program aimed at promoting "green" habits and encouraging customers of the Bank to quit paper account or credit card statements. As part of the program Citi Handlowy planted one tree on behalf of each customer who decided to switch to electronic statements. 101,000 trees were planted in the first half of 2013.

- **Responsible Business League (Liga Odpowiedzialnego Biznesu):** A program that targets the academic community to promote CSR ideas as a business standard. The program is organized by the Responsible Business Forum in collaboration with the Kronenberg Foundation and public universities. The next edition of the program started in the academic year 2012/2013 with more than 9,000 attendees.

8.4 Involvement of the Bank in environmental management

The Bank is a leader of environmental management in the financial industry - the Bank has implemented the Environment Management System, holds the Green Office certificate, and is the first signatory to the Carbon Disclosure Project in Poland. The Bank pursues activities addressed to customers, suppliers and subcontractors and supports them in environmental initiatives. In the first half of 2013, Citi Handlowy became involved in working teams investigating renewable energy sources and turning green the new financial prospects at the Ministry of Economy and Ministry of the Environment as part of Wizja 2050 project. The Bank also commenced implementation of the Energy Management System.

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

A potential lack of expected revival in global economy may prove to be a major risk to the Polish economy. Such a scenario could came into effect if a slowdown in GDP growth in China is more severe than expected, in particular in the light of more stringent liquidity conditions, worsening current account balance and the risk of threats posed by major stimulation packages of previous years. Another factor endangering revival in the developing economies would be lower dependency of developed economies on imports from the emerging countries in favor of domestic production.

The lack of economic revival among the main trade partners of Poland would reduce the economic growth in Poland and hamper to carry out the fiscal policy. With a slow growth in the GDP, the risk of prudency limits for the public debt to GDP as prescribed in the Act on public finances not being met would increase. This would force further fiscal consolidation by the government and pro-cyclical economic policy being pursued. In this scenario, the magnitude of the economic slowdown in Poland and the aggravation of the labor market situation could be deeper than expected, affecting the financial performance of companies and the situation of households.

In addition, reduction in asset repurchase as started by the Fed may contribute to the sale of currencies and other assets of developing countries, resulting in depreciation of the zloty, an increase in inflation and lower purchasing power of households.

The above factors may affect the Group's performance in the following reporting periods.

1.2 Regulatory risk

Any changes in the economic policies or in the legal system could have a considerable effect on the Group's financial position. In terms of banking sector regulations, a particularly important role is played by legal acts and related secondary legislation, including regulations of the Minister of Finance, resolutions of the Management Board of the National Bank of Poland ("NBP"), orders of the Chairman of NBP and resolutions of the Polish Financial Supervision Authority ("PFSA").

The most relevant of these regulations include:

- acceptable concentration limits of loans and total receivables (Banking Act);
- maximum limit of equity that may be invested in the capital market (Banking Act);
- liquidity, solvency and credit risk standards (resolutions of the Commission for Banking Supervision – KNB – and PFSA);
- risk management at the bank (Banking Law, resolutions of the KNB/ PFSA);
- mandatory reserves – establishment and transfer (NBP Act, Banking Act, resolutions of KNB and PFSA, resolutions of the NBP 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;
- Countering Unfair Market Practices Act of 23 August 2007;
- Act of 16 November 2000 on combating money laundering and terrorist financing;

- Act of 29 July 2001 on consumer credit;
- Consumer Credit Act of 12 May 2011;
- Payment Services Act of 19 August 2011;
- Act of 14 December 1994 on the Bank Guarantee Fund (BFG) – on August 14, 2013 President of the Republic of Poland signed the Act of July 26 2013 on the amendment to the Bank Guarantee Fund Act and other acts. Pursuant to it BFG, acting upon the motion of the Minister of Finance, will be able to grant domestic banks taking corrective action measures guarantees for increasing banks' own funds (the so-called recapitalization guarantee). The guarantees will be made from a stabilization fund, which will be established as a new fund within BFG. The stabilization fund will be financed from contributions (precaution fee) paid by the entities covered by the guarantee system (i.e. banks). The amount of the precaution fee will be calculated as a product of the rate not exceeding 0.2% and the basis for the calculation of the annual fee. The amount of the precaution fee, in the above mentioned limits, will be determined by the Council of BFG, taking into account the situation in the financial sector and its macroeconomic environment. The new act will enter into force 30 days from its announcement in the Journal of Laws;
- 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 concerning best practice of managing the risk of retail credit exposures;
- 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 M of the Polish Financial Supervision Authority concerning operational risk management at banks.

On 16 August 2012 Regulation of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories (EMIR) came into effect. Because of the legal nature of the instrument (regulation) its effectiveness in Poland did not require implementation and provisions of the instrument apply directly. Among other things, EMIR provides for an obligation to clear certain OTC transactions through specialized entities, the so-called central counterparties (CCP). OTC transactions which are not subject to the requirement of central clearing are subject to additional conditions which improve trading security (such as the obligation to place transaction collateral). In accordance with the EMIR, all the OTC transactions must be reported to the so-called trade repositories. On 19 December 2012, the European Commission adopted regulatory and executive technical standards laying down detailed rules and requirements on clearing OTC transaction, reporting them to trade repositories and introducing techniques to limit the risk of OTC derivative contracts not subject to central clearing.

These standards came into effect on 15 March 2013 and introduced the following obligations for the bank (and other financial and non-financial counterparties):

1) an obligation to confirm OTC transactions that are not centrally cleared in a timely manner;
2) an obligation to mark-to-market on a daily basis the value of outstanding contracts, or where market conditions prevent marking-to-market, marking-to-model shall be used;
3) an obligation to implement relevant procedures and arrangements to evaluate, monitor and restrict the operating and credit risk of the counterparty by means of portfolio reconciliation and portfolio compression processes for OTC contracts not settled by the CCP and dispute resolution.

Obligations referred to in subparagraphs 1) and 2) came into effect on 15 March 2013. The Bank adapted its activities to the resulting EMIR requirements. Requirements referred to in subparagraph 3) above shall apply from 15 September 2013 given their effective date specified in the technical standards. Given this, the Bank is performing actions aimed at adapting its activities to the requirements referred to in subparagraph 3) and to the obligation to report transactions to trade repositories and the central contract clearing by the CCP (deadlines for such obligations are currently approximate). The shape of obligations related to the collateral requirement for the OTC transactions that are not centrally cleared is not yet known and depends on requirements to be listed in further secondary legislation to the EMIR.

1.3 Competition in the banking sector

In the first half of 2013, the economic slowdown also affected the Polish economy. The drop in investments and private consumption, among other things, resulted in a symbolic growth rate of the gross domestic product. Interest rate cuts to the historic low levels created more difficult conditions to conduct business by banking groups. The pressure on margin on interest is an additional factor which aggravates competition among banks and results in fees being now charged for services which used to be free. The growing competition makes it difficult to minor players to maintain satisfactory efficiency levels, which in turn triggers further consolidation movements in the sector.

Competition from non-banking lenders operating under regulations which are less restrictive than those applicable to banks poses a growing risk factor to the banking sector. Their activity generates a potential risk to the quality of the loan portfolio. It derives from the inability to verify the actual level of borrowers' debt from non-banking firms, which prevents a complete rating of their creditworthiness and could potentially result in excessive debt of customers and their inability to pay loans back when due. Therefore, initiatives aimed at regulating the market are worth applauding.

Profits of banks are under pressure also because of the falling revenue from interchange fees and possible introduction of additional fees for the Bank Guarantee Fund in 2013.

To maintain competitive leverage in the dynamic environment, the Group has undertaken a number of initiatives focused especially around areas which constitute the operating core of the Bank. The initiatives mainly cover the credit card market and services for affluent customers and, in the corporate segment, global customers and the biggest local companies. The areas of focus for the Bank also include the foreign exchange market, transactional banking and securities custody, as well as brokerage operations.

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

2.1 Liquidity risk

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

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

As part of liquidity management activities, the Assets and Liabilities Committee of the Bank is responsible for the development and implementation of a uniform policy of liquidity risk management in the Bank, approves annual liquidity plans, funding plans of the Bank's assets and the Bank's liquidity limits, as well as liquidity contingency action plans. It also determines threshold limits for particular sources of funding and carries out regular reviews of liquidity risk reports.

The Bank's deposit base is stable and diversified. Furthermore, the Bank has a large portfolio of liquid securities, good access to interbank funding and a high equity. The level of liquidity risk in the first half of 2013 was low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and on its own account, and holds open foreign exchange positions within established limits. Consequently, the Bank incurs foreign exchange risk. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates with the Treasury Department, the unit managing liquidity and the foreign exchange position. In the first half of 2013, the market risk of the Bank's proprietary positions was low.

2.3 Interest rate risk

Similar to other Polish banks, the Bank is exposed to a risk arising from a gap in the timing of changes in interest rates on its assets and the underlying liabilities (revaluation date gap risk) and from the sensitivity of the value of debt securities and of interest rate derivatives to changes in the market interest rates (pricing risk). In respect of the revaluation date gap risk, interest rate risk can arise when a reduction in income caused by lower interest rates on loans proves impossible to offset through a corresponding reduction in interest rates paid to deposit holders. This risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk can arise when changes in the market rates have an adverse effect on the valuation of instruments in the trading portfolio and, consequently, on the Bank's financial result or on the valuation of the portfolio of securities available-for-sale and, consequently, on the Bank's equity. The management of interest rate risk is a responsibility of the Assets and Liabilities Committee of the Bank which, among other things, determines the Bank's interest rate risk pricing policy. The interest rate risk level during the first half of 2013 was medium to high for trading portfolios and medium for banking portfolios.

2.4 Credit risk and counterparty risk

Credit risk and counterparty credit risk represents the potential loss resulting from a customer's inability to settle its contractual obligations due to insolvency or other reasons, taking account of collateral, unfunded credit protection and other loss mitigating factors. For counterparty risk, the size of the Bank's exposure fluctuates over time. If the transaction is not settled in time, the Bank runs an additional risk of changing the contract value. The Bank introduces limits for the credit risk and counterparty risk at the exposure level to the entity or a group of related economic entities. In addition, portfolio limits are introduced to support the process of management and ongoing monitoring of the credit portfolio. The active process of portfolio quality management includes both assigning appropriate risk ratings and classification to facilities as well as the application of remedial and debt collection actions. The Bank creates impairment losses for credit exposures as required by the regulations. The Bank's Management Board is of the opinion that the current level of impairment losses is adequate. As the possibility of change in the external environment or other circumstances that could adversely impact the financial condition of the Bank's customers always exists, there is no certainty that some future need for adequate provisioning against the existing asset portfolio will not have an adverse effect on the Bank's financial position or that the provisions and the impairment losses and collateral in place will prove sufficient to absorb the possible losses arising out of lending.

2.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failing internal processes, people, or technical systems, or from external events. Operational risk includes reputation risk, associated with business practices or market conduct. Operational risk also includes legal risk and the risk of non-compliance with applicable laws and regulations. Operational risk does not include strategic risk or the risk of loss resulting from decisions made with respect to accepted credit, market, liquidity or insurance risk.

The objective of the implemented Policy of Operational Risk Management is to put in place a consistent and effective system of operational risk control, assessment, monitoring, measurement and reporting which provides added value, and to ensure general effectiveness of the internal control environment throughout the Bank.

The Supervisory Board and the Management Board of the Bank are supported in the oversight of operational risk management and in the operational risk management process by appointed Committees and a separate independent unit responsible for operational risk management. Management information on operating risk for such Committees covers data necessary to monitor the Bank's operational risk profile (including results of internal and external audits, RCSA results, KRI – Key Risk Indicators, operational losses, COB and information security updates, issues and corrective actions, capital requirements, stress tests).

Due to limited appetite for residual operational risk, the family of operational risks (including technological and technical risk, outsourcing risk, fraud risk, money laundering risk, information security risk, continuity of business risk, tax and accounting risk, product risk, compliance risk, legal risk, model risk) is managed largely through an effective control environment and the participation of special units in the management of specific risks.

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 continues implementation of the Strategy adopted in the early 2012 for 2012-2015. The Strategy is based on four pillars: customer segmentation, business model, quality and innovation, and effectiveness.

The priority in both the Corporate Bank and the Consumer Bank will still be to focus on acquisition of operating accounts and building a comprehensive relation with the customer. The main focus will be on the affluent customer segment in the Consumer Bank and acquisition of new mid-sized companies in the Corporate Bank.

The Bank strives to increase product sales through remote channels. This will be possible with increased investments in the technology and changes in the online platform. In addition, effective cost and capital management as well as liquidity remains an issue of utmost importance for the Group. By focusing on increased effectiveness, the Bank is actively managing the cost policy, by seeking possibilities of optimizing internal processes.

Top customer service is the key success factor in the strategy of the Bank. With continuous monitoring of customer satisfaction level, the Bank is able to quickly spot areas which require increased attention. This facilitates effective competition in the market of financial services.

The main goal of the Group is still to build value of the Bank by improving operational effectiveness and leveraging the market advantage of a strong capital and liquidity position ensuring customer safety and trust in the institution.

1.1 Corporate Bank

In the Corporate Bank, the Bank plans to maintain its leading position in the segment of international corporations and the biggest local companies. For this purpose, the Bank is planning to acquire new customers and expand relations with existing customers in selected sectors, and to provide support to customers planning regional or international expansion (Emerging Market Champions initiative). The Bank plans to maintain its leading position on the foreign exchange market, in cash management products and institutional brokerage operations.

It is an objective of the Bank to enhance effectiveness by improving processes, focusing on innovations and raising the quality of services. In transactional banking, the Bank will continue to expand the product offer for corporate customers in order to acquire customers by opening new operating accounts and to maximize the share of wallet of existing customers. Trade finance products will play a key role in attracting new customers with a potential of cross-selling of cash management products.

1.2 Brokerage activities

DMBH's financial performance is mainly driven by (both Polish and foreign) institutional client activity, which, in turn, depends on the inflow of funds and conditions in equity markets. Low interest rates improves attractiveness of equity funds. Therefore, we may expect a shift of some savings from low risk profile instruments to products exposed to the equity market. The main risk factor for the forthcoming quarters could be the reform of the second pillar of the pension system, which could substantially translate to a drop in assets managed by the open-ended pension funds and consequently lower activities of this segment in the equity market. In addition, further uncertainty as to the final shape of pension funds may result in foreign investors' suspension of the decision to invest in the Polish equity market.

1.3 Consumer Bank

The Bank will continue to focus on the customer segments and products where it has the competitive advantage. This implies further growth in wealth management and relationship banking focused on Gold (i.e. affluent and emerging affluent) customer segments while aiming to strengthen the position of Citi Handlowy as the leader and bank of first choice in those segments. The acquisition of new customers, their share of wallet and loyalty of target groups of individual customers will be supported, as before, by the comprehensive offer of banking products, supplementary services and special privileges.

The leading position on the credit card market is crucial to the Bank's competitive advantage and generates acquisition of new customers. The main objective in this area is to maintain the leading position in credit card use and transactions and to strengthen the sales of new credit cards by ongoing development of the credit card offer, partnerships, loyalty programs and other benefits both for existing and new customers of the Bank.

In the segment of cash loans, the Bank will take active measures to ensure growth in credit balances. Since early 2013 the Bank has begun to implement the new sales model for a cash loan, which assumes leaving diversified sales through various branches in favor of the centralized telephone sales. The central model means standardized forms of contacting the customer, which ensure the highest quality of service and a coherent, effective sales process. In the new model of sales, the loan offering is addressed to selected customer groups. During the telephone conversation, account managers present a personalized credit offer and prepare a loan application. Telephone account managers work closely with a group of dedicated mobile account managers who meet with the customer and finalize the loan agreement at the time and place suitable for the customer. The new model means a more effective sales process on one hand, which allows to increase productivity and the volume of loan sales, and on the other hand, improves customer satisfaction with efficient service, time saving and no need to make frequent visits to the branch.

Relations with both existing and newly acquired customers of the Consumer Bank will be improved, as before, owing to mortgage products offered on attractive terms tied to the customer's overall level of relations with the Bank. The segment of small companies will remain a strategic driver of growth. Development of the product offer and further improvement of sales and customer service processes will help to maintain a dynamic growth of the portfolio of active customers in this segment. Fast growth in this area will also support the acquisition of new active relations with individual customers.

Furthermore, the Bank will remain focused on the quality of customer service by ensuring top standards of service, especially for the target segments of customers, both in the branch network and over the digital channels. The Bank will continue to align its business model with the current strategy and to improve processes and modernize infrastructure in order to generate further growth of sales and operational effectiveness. The Bank will provide customers with access to its products and services across Poland over different access channels including the state-of-the-art digital platforms and a network of branches situated in the biggest cities. The Bank's increasing focus on the potential of digitization is geared towards further growth of acquisition over the digital channels and of the number of channel users. At the same time, the resulting reduction of the workload in the traditional channels is expected to contribute to further improvement of the Bank's effectiveness.

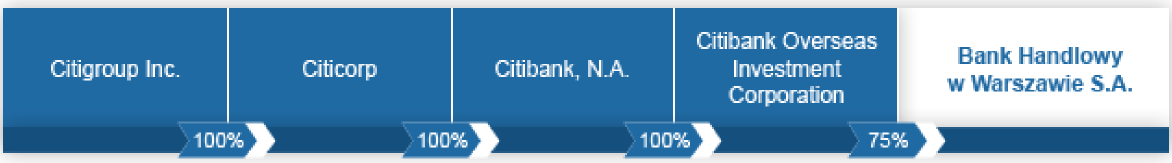
VIII. Investor information

1. The Bank's shareholding structure and performance of its shares on the WSE

1.1 Shareholders

The only shareholder of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders' Meeting (GSM) is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds the group's overseas investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the first half of 2013, neither the number of shares held by COIC nor its participation in the share capital and votes at the GSM of the Bank changed, and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM.

The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:

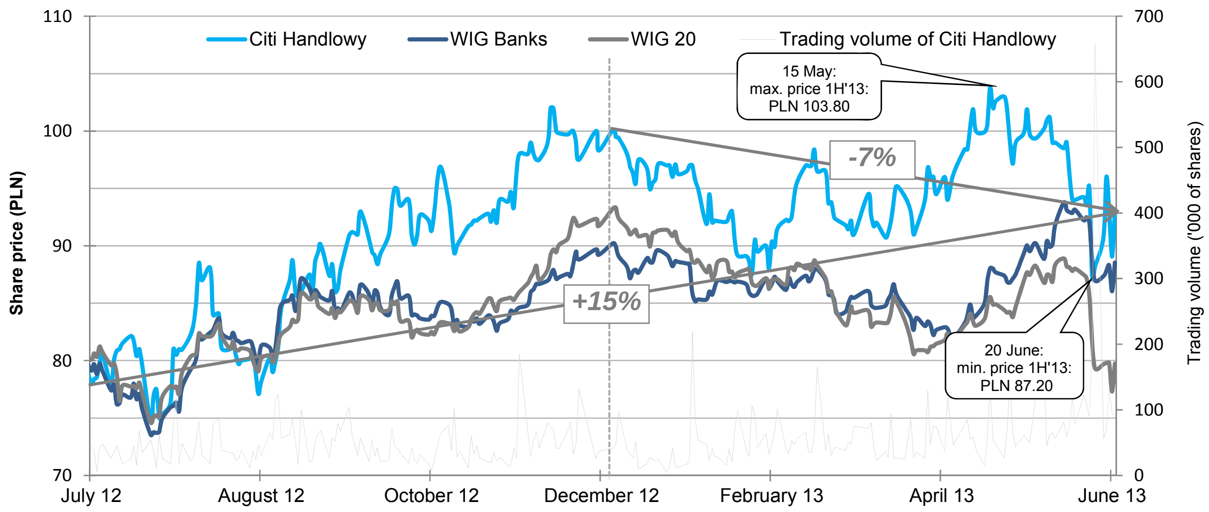


The remaining shares (32,664,900, equivalent to 25% of the share capital) constitute free float, which means that they remain in free trading and are listed on the WSE.

1.2 Performance of the Bank's shares on the WSE

The Bank's price at the end of the first half of 2013 reached PLN 93.00, an increase of 15.1% over the past 12 months (compared to the closing price of 29 June 2012 at PLN 80.80). WIG-Banks and WIG indices followed, which compared to the end of the first half of 2012 recorded an increase by 9.6%, while WIG 20 index grew by 1.3% over the same period. In the first half of 2013 only, the Bank's shares dropped by one digit (by 7.1% from PLN 100.10 on 2 January 2013), just like the main WSE indices (WIG-Banks: -1.9%, WIG: -7.0%, WIG20: -14.5%). The highest price of the Bank's shares in the first half of 2013 was reached on 15 May 2013 at PLN 103.80. The Bank's average share price in the first half of 2013 was PLN 95.16, and the average daily volume of trading in the Bank's shares stood at more than 64,000.

The Bank's share price and trading volume from the end of 1H 2012 vs. WIG-Banks and WIG20 indices
(29/06/2012 = 80.80)



At the end of June 2013 capitalization of the Bank was PLN 12.2 billion (compared to PLN 13.1 billion on 2 January 2013 and PLN 10.6 billion at the end of the first half of 2012). At the end of June 2013 stock exchange indices were as follows: P/E –11.2 (compared to 13.8 on 2 January 2013 and 13.2 in the same period of the previous year), P/BV – 1.6 (compared to 1.9 on 2 January 2013 and 1.6 at the end of June 2012).

2. Dividend

On 20 June 2013, the Bank's Ordinary General Meeting decided to allocate 75.0% of the stand-alone net profit of 2012 for a dividend, which implies a dividend per share at PLN 5.79.

The table below shows a history of dividends since 1997, i.e., since the floatation of the Bank on the WSE.

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits*
*** On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008*

3. Rating

The Bank is fully rated by international rating agencies: Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). Moreover, Standard & Poor's gives the Bank an unsolicited rating on the basis of publicly available information.

During the first half of 2013, the ratings remained unchanged. The last change of Moody's rating took place on 22 June 2012, while Fitch affirmed ratings at the unchanged level on 29 April 2013.

As at 30 June 2013, the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits in the domestic currency	Baa3
Rating for long-term deposits in foreign currencies	Baa3
Rating for short-term deposits in the domestic currency	Prime-3
Rating for short-term deposits in foreign currencies	Prime-3
Bank's financial strength	D+
Bank's financial strength rating outlook	*Stable*
Long- term and short-term deposits in the domestic and foreign currency rating outlook	*Stable*

As at 30 June 2013, the Bank had the following ratings awarded by Fitch:

Long–term Issuer Default Rating	A-
Outlook	Stable
Short-term Issuer Default Rating	F2
Viability rating (VR)*	bbb+
Support rating	1

** Viability rating represents Fitch's view as to the intrinsic creditworthiness of an issuer excluding any impact of external factors.*

The rating from Standard & Poor's (prepared on the basis of publicly available information) remained unchanged at BBBpi in the first half of 2013 (affirmed on 13 December 2012).

4. Investor relations

An integral element of the Bank's information policy, intended to cater to information needs of all persons and institutions interested in corporate information about the Company, are investor relations which provide information to the existing and potential investors as well as capital market analysts and rating agencies. In terms of investor relations, the main tools of the information policy are:

- systematic contacts with analysts and investors, in the form of teleconferences and meetings, also at the Bank's premises, attended by members of the Management Board of the Bank;
- support of the Press Office during quarterly press conferences for the media, organized after publication of interim reports;
- publishing current information on the Bank and its projects as well as all current and interim reports on the website. The website also makes it possible to contact 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.

IX. Best practice and management principles

1. Best practice at the Bank

Since 2003, the Bank has complied with corporate governance rules approved by the Warsaw Stock Exchange ("WSE") as the Best Practices in Public Companies 2002 and amended Best Practices in Public Companies 2005 and, as of 1 January 2008, as the Best Practices for WSE Listed Companies ("DPSN").

The key objective of the adoption of the corporate governance rules as a standard of the Bank has been to establish transparent relations among all corporate bodies and entities involved in the Bank's operation as well as to ensure that the Company and its enterprise are managed properly, with due diligence and loyally with respect to all shareholders.

The Management Board and the Supervisory Board of the Bank expressed their willingness that the Bank should follow corporate governance principles presented in the Code of Best Practice for WSE Listed Companies amended in 2010, 2011 and 2012, except for:

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

ii. recommendation I.12 relating to granting the shareholder with the right to exercise the right of vote in person or by the attorney during the GSM, outside the place of the GSM, using means of electronic communication.

By convening the Ordinary General Shareholders' Meeting in 2013, the Management Board decided not to apply the rule of Chapter IV.10 of the DPSN relating to bilateral communication in real-time, which allows the shareholders to make statements during the GSM while not being physically present at the GSM. In making this decision, the Management Board of the Bank considered legal, organizational and technical risks related to providing shareholders personally absent at the GSM with bilateral real-time communications, using means of electronic communications, which may adversely affect the progress of the GSM. The Management Board decided that governing rules of participation in the GSM properly secure interests of the shareholders, by allowing them to exercise of all their rights resulting from the shared held. The Bank allows the online transmission of the GSM and makes it available on its website.

A separate part of reports on the activities of the Bank and Bank's Capital Group for 2012 is statement of the Management Board on applying corporate governance principles in the Bank in 2012. 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 the Bank, especially relations and process between the Company's statutory bodies, resulted in introduction of below-mentioned best corporate practice in the Bank.

1.1 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. These include the following:

- The Bank has been publishing its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;
- At least half of the members of the Supervisory Board, including the Chairman, are of Polish nationality, and the Supervisory Board also includes independent members;
- 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.

1.2 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 e.g. the following principles:

- General Meetings of the Shareholders of the Bank are always held at the head office of Bank in Warsaw,
- The Bank may organize the General Meeting in a manner allowing the shareholders to participate in the General Meeting using electronic communication means,
- 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 explanations 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 as such it 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 regulations; among other things, pursuant to Article 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.

HL operates as a leasing company. The leasing industry organized in 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 and Supervisory Board during the first half of 2013

3.1.1 Changes in the composition of the Management Board during the first half of 2013

During the first half of 2013 the Management Board of the Bank consisted of:

Sławomir S. Sikora	President of the Management Board
Brendan Carney	Vice-President of the Management Board
Robert Daniel Massey JR	Vice-President of the Management Board – until 20 June 2013
Misbah Ur-Rahman-Shah	Vice-President of the Management Board
Witold Zieliński	Vice-President of the Management Board
Iwona Dudzińska	Member of the Management Board

On 30 April 2013 Mr. Robert Denmark Massey JR notified the Bank that he would not run for the position of the Vice-President of the Management Board of the Bank for the next term.

3.1.2 Changes in the composition of the Supervisory Board during the first half of 2013

During the first half of 2013 the Supervisory Board of the Bank consisted of:

Andrzej Olechowski	Chairman of the Supervisory Board
Shirish Apte	Vice-Chairman of the Supervisory Board
Adnan Omar Ahmed	Member of the Supervisory Board
Igor Chalupec	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Marc Luet	Member of the Supervisory Board
Frank Mannion	Member of the Supervisory Board
Dariusz Mioduski	Member of the Supervisory Board
Krzysztof L. Opolski	Member of the Supervisory Board – until 28 June 2013
Anna Rulkiewicz	Member of the Supervisory Board – from 29 June 2013
Stanisław Sołtysiński	Member of the Supervisory Board
Zdenek Turek	Member of the Supervisory Board
Stephen Volk	Member of the Supervisory Board

On 10 June 2013 Chairman of the Supervisory Board accepted resignation of Prof. Krzysztof Opolski from the function of a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. upon expiry of the three year term, i.e. 28 June 2013.

On 20 June 2013 the Ordinary General Shareholders' Meeting appointed Ms Anna Rulkiewicz to the Supervisory Board for a three years' term from 29 June 2013 and Mr. Stephen R. Volk for another three years' term from 21 June 2013.

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 an individual 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) drafts regulations regarding the management of special funds created from the net profit and submits them to the Supervisory Board for approval;

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) resolves issues raised by the President, a Vice-President or a 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 operations 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 decisions 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 own funds, 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 actions relating to the system of risk management, internal controls and internal capital assessment as well as review of the internal capital assessment 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 common 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 (Article 25 et seq.), the Bank's Articles of Association put no limitations with regard to transfer of Bank's shares.

X. 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 Management Board and Supervisory Board of the Bank:

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2013	Number of shares as at the day of submitting the previous quarterly interim report for Q1 of 2013
Iwona Dudzińska	Member of the Management Board	600	600
Andrzej Olechowski	Chairman of the Supervisory Board	1,200	1,200
Total		**1,800**	**1,800**

Members of the Management Board and Supervisory Board 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 an 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 policy

During the first half of 2013, no changes in the management principles were made. The management principles are outlined in the Note to the Interim Condensed Consolidated Financial Statements of the Capital Group of Bank.

XI. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board composed of: Mr. Sławomir S. Sikora – President of the Management Board, Mr. Brendan Carney – Vice-President of the Management Board, Mr. Misbah Ur-Rahman-Shah – Vice-President of the Management Board, Mr. Witold Zieliński – Vice-President of the Management Board and Ms Iwona Dudzińska – Member of the Management Board, semi-annual financial data and comparative data presented in the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the 6-month period ended 30 June 2013" and "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the 6-month period ended 30 June 2013" were prepared in accordance with the principles of accounting and give a true, fair and clear picture of financial standing and financial position of the Bank and the Group as well as financial performance of the Bank and the Group. The "Report an activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2013", contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2013.

Selection of the auditor authorized to audit the financial statements

A licensed auditing firm – PricewaterhouseCoopers Sp. z o.o., examining the Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the 6-month period ended 30 June 2013" and "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the 6-month period ended 30 June 2013", was appointed in accordance with applicable laws. The firm and certified auditors that performed the examination satisfied the conditions necessary for issuing an objective and independent report on those statements, in accordance with applicable laws and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws No. 33 item 259, as amended) is included in the Interim Condensed Consolidated Financial Statements of the Capital Group of the Bank.

Signatures of Management Board Members

Date	Name	Position/function	Signature
27 August 2013	Sławomir S. Sikora	President of the Management Board	....
27 August 2013	Brendan Carney	Vice-President of the Management Board	....
27 August 2013	Misbah Ur-Rahman-Shah	Vice-President of the Management Board	....
27 August 2013	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	....
27 August 2013	Iwona Dudzińska	Member of the Management Board	....