REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN 1H 2007

SEPTEMBER 2007

CONTENTS

I. Poland's Economy in 1H 2007

1. Main Macroeconomic Trends

In early 2007 new signs of economic recovery appeared. GDP growth in the first half of the year reached 7.1% YoY, thus exceeding the level of growth in 1997. Strengthening of domestic demand was the key factor of that economic recovery. Under favourable weather conditions and the efforts to build back production capacities in the corporate sector, investment expenditure increased by 25.3%.

Individual consumption in the first half of 2007 strengthened further, growing at 6.0%. The raise on consumption was driven by evident improvement in labour market conditions. In the first 6 months of the year average wag inflation in the enterprise sector reach 8.4% YoY. At the same time, the growing demand for labour contributed to decline in the jobless rate to 12.4% in June, as compared to 14.9% in the final month of 2006.

The improvement in the labour market and the acceleration of economic growth were accompanied by gradual growth of inflation. In June 2007, CPI reached 2.6% YoY, overshooting slightly the inflationary target set by the Monetary Policy Council (2.5%). The prospect of increasing unit cost of labour and of dynamic GDP growth induced the Monetary Policy Council to pursue tighter monetary policy, two instances of interest rates increase. As a result, at the end of June 2007, reference rate rose to 4.5% and was 0.5 of a percentage point higher than at the end of 2006.

The economic recovery was conducive to further growth of demand for credit in the economy. In June 2007, loans to households increased by 37.7% YoY, coming mainly from dynamic growth in housing finance. At the same time, demand for credit of the enterprise sector increased once more, after a long period of stagnation. In June 2007, value of loans granted to companies was 22.1% higher than a year earlier.

The still low interest rate environment and the growing popularity of investment funds contributed to a slowdown in the growth of household savings deposits, which in June rose by 5.9% YoY. At the same time, the relatively high rate of growth in corporate deposits was maintained (23.3% YoY in May 2007).

2. Money Markets and FX Markets

As at the end of June 2007, the national currency strengthened by 1.7% vis-à-vis the euro and by 3.8% vis-à-vis the US dollar, in reference to the end of 2006. Comparison of average exchange rates of June 2007 and December 2006 indicate that the Polish złoty appreciated by 0.1% against the euro and by 1.6% against the US dollar.

In the first half of 2007, the Polish złoty benefited from solid fundamentals of the Polish economy, inflow of FDIs and foreign currency receipts from Polish expatriates working abroad. Episodes of weakening of PLN were shorter and caused by external factors, such as global surge in risk averseness, which discourage investors from maintaining their assets in the Emerging Markets.

The impulses which helped overcome the short-lived downward trends of the złoty came from such as the increase in Poland's rating in foreign currency from BBB+ to A- by Fitch and S&P, the raise in the expectations that the Monetary Policy Council would tighten monetary policy and the interest rate increases in April and June. In effect, at the end of the first half of 2007, the Polish złoty depreciated vis-à-vis the euro to PLN 3,7658 and vis-à-vis the US dollar to PLN 2.7989.

The beginning of the year turned out to be optimistic for the domestic debt market. Improvement in the market sentiment was fed by information on the better than expected state of public finances translating into lower than a year earlier budget deficit. The market was also positively impacted by the decision to raise Poland's rating. However, in the subsequent months the sentiment in the treasury bonds market gradually dampened at appearance of a number of domestic and international factors. The mounting wage growth and inflation rates caused the market to perceive more clearly the risk of interest rate increases (which ultimately happen in April and June), which had an adverse effect on treasure paper yields. Additional factors that contributed to deterioration of conditions on the Polish market came from the development of declining trends in bond prices in the US market and the Euro zone.

Finally, the first half of 2007 brought about an increase of 53 bps in the 2-year treasury bond yields, of 56 bps in the 5-year treasury bond yields and of 42 bps in the 10-year treasury bond yields.

3. Capital Market

1H 2007 was a successful period for the Polish stock market. WIG, the market's main index, rose by 31.5%, from 50 467, as at the end of 2006, to 66 340, as at the end of 1H 2007 (62.1% growth over the period of past 12 months). WIG20, the index of the largest and most liquid companies, rose by 14.6% since the beginning of the year and by 29.4% in reference to the end of June 2006.

In 1H 2007, strong growth trend – which began in 2003 – continued in the market. The respective indices reached their historical highs. As at the end of June 2007, the number of companies traded on Giełda Papierów Wartościowych w Warszawie (Warsaw Stock Exchange or WSE) increased to 315, compared to 294 at the end of 2006. The number of foreign companies traded on the Warsaw market also increase. As at 30 June 2007, the WSE listed 15 foreign stocks, 3 more than at the end of 2006.

Market capitalisation rose markedly, both as a result of the significant hikes in the market indices and through the numerous IPOs. As at the end of 1H 2007, market capitalisation of the listed equities reached PLN 587.3 billion (a 34.2% growth from PLN 437.7 billion at the end of 2006). Total capitalisation of the market (including the foreign listed companies) rose from PLN 635.9 billion at the end of 2006 to PLN 874.0 billion at the end of June 2007 (growth of 37.4%).

WSE equity indices, as at 30 June 2007

Index	30.06.07	30.03.2007	Change (%) June'07 / March'07	29.12.2006	Change (%) June'07 / Dec'06	30.06.2006	Change (%) June'07 / June'06
WIG	66340	57561	15.3	50467	31.5	40937	62.1
WIG-PL	66114	57605	14.8	50021	32.2	40725	62.3
WIG20	3786	3535	7.1	3304	14.6	2925	29.4
MIDWIG	5674	4719	20.2	3709	53.0	2659	113.4
WIRR	21449	17088	25.5	12649	69.6	8407	155.1
Sector sub-indices							
Banks	8804	7947	10.8	7054	24.8	5514	59.7
Construction	11543	10727	7.6	7646	51.0	4813	139.8
Development	6461	N/A	N/A	N/A	N/A	N/A	N/A
IT	2299	2086	10.2	1728	33.1	1402	64.0
Media	4343	4785	-9.2	3976	9.2	3267	32.9
Fuels	3759	3226	16.5	3128	20.2	3309	13.6
Food industry	4678	4027	16.2	3818	22.5	3191	46.6
Telecoms	1408	1283	9.7	1343	4.8	1107	27.1
Technologies	1340	1303	2.8	1199	11.7	996	34.5

Source: WSE, DMBH

The index increases were positively correlated with activity of domestic capital market investors, being primarily Polish investment funds. Value of trades in 1H 2007 on year earlier rose by 56%, from PLN 161.5 billion do PLN 252.1 billion.

Volume of trade in the bond market in 1H 2007 reached PLN 2.05 billion and was 24.5% lower than in a year earlier equivalent period.

The raising indices and the persistently bullish market sentiment in the equities market impacted positively the volume of futures and options contracts traded on the WSE. In 1H 2007 investor activity on that market increased by 12.5% compared to a year earlier equivalent period.

WSE turnover* in equities and bonds, and volumes of trade in derivative instruments, as at 30 June 2007

	Q2 2007	QoQ Change (%)	1H 2007	YoY change (%)	2006	YoY change (%)
Equities (PLN m)	129 985	6.4%	252 099	56.1%	320 291	82.6
Bonds (PLN m)	1 042	3.9%	2 045	-24.5%	5 488	8.5
Futures and options (‘000 units)	3 597	-11.9%	7 678	12.5%	6 386	18.7

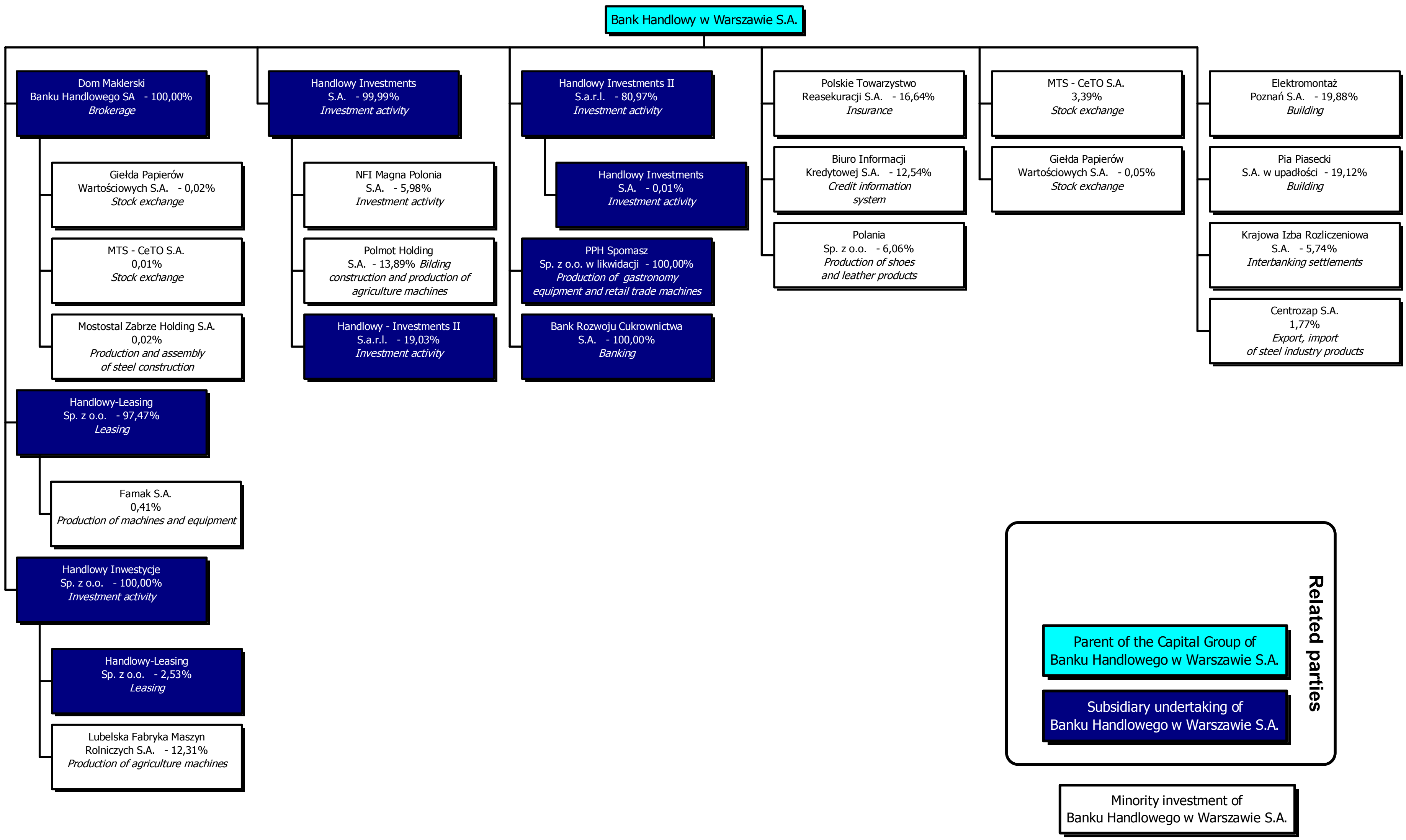
Source: WSE, DMBH * Double counted, for both sides of each transaction.

4. Banking Sector

Net income generated by the entire banking sector in 1H 2007 stood at approximately PLN 7.1 billion, which was a 21% increase on the 1H 2006 result. The robust level of earnings reflects the strength of Poland’s economy. The profitability of the sector was mainly influenced by a significant increase in net interest income and net commission income. The sector’s net income on financial operations experienced a threefold raise. Net gains on FX positions also increased somewhat, whereas income from shares, other securities and variable rate financial instruments declined. In 1H 2007 retail lending growth reached 40% YoY, while retail deposits grew by 3% YoY; mainly a consequence of the growing popularity of investment funds, which registered asset value raise of nearly 80% YoY. Situation on the corporate loans market improved markedly, with growth of 22% compared to 1H 2006. Good situation continues in the market of corporate deposits, which rose by 23% YoY.

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

The organisational chart below depicts the structure of the entities forming part of the Capital Group of Bank Handlowy w Warszawie S.A. (“Bank”), with shareholdings as at 30 June 2007.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA - 100,00% Brokerage
Giełda Papierów Wartościowych S.A. - 0,02% Stock exchange
MTS - CeTO S.A. 0,01% Stock exchange
Mostostal Zabrze Holding S.A. 0,02% Production and assembly of steel construction
Handlowy-Leasing Sp. z o.o. - 97,47% Leasing
Famak S.A. 0,41% Production of machines and equipment
Handlowy Inwestycje Sp. z o.o. - 100,00% Investment activity
Handlowy-Leasing Sp. z o.o. - 2,53% Leasing
Lubelska Fabryka Maszyn Rolniczych S.A. - 12,31% Production of agriculture machines
Handlowy Investments S.A. - 99,99% Investment activity
NFI Magna Polonia S.A. - 5,98% Investment activity
Polmot Holding S.A. - 13,89% Bilding construction and production of agriculture machines
Handlowy - Investments II S.a.r.l. - 19,03% Investment activity
Handlowy Investments II S.a.r.l. - 80,97% Investment activity
Handlowy Investments S.A. - 0,01% Investment activity
PPH Spomasz Sp. z o.o. w likwidacji - 100,00% Production of gastronomy equipment and retail trade machines
Bank Rozwoju Cukrownictwa S.A. - 100,00% Banking
Polskie Towarzystwo Reasekuracji S.A. - 16,64% Insurance
Biuro Informacji Kredytowej S.A. - 12,54% Credit information system
Polania Sp. z o.o. - 6,06% Production of shoes and leather products
MTS - CeTO S.A. 3,39% Stock exchange
Giełda Papierów Wartościowych S.A. - 0,05% Stock exchange
Elektromontaż Poznań S.A. - 19,88% Building
Pia Piasecki S.A. w upadłości - 19,12% Building
Krajowa Izba Rozliczeniowa S.A. - 5,74% Interbanking settlements
Centrozap S.A. 1,77% Export, import of steel industry products
Related parties
Parent of the Capital Group of Banku Handlowego w Warszawie S.A.
Subsidiary undertaking of Banku Handlowego w Warszawie S.A.
Minority investment of Banku Handlowego w Warszawie S.A.

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

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

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Business	Capital relationship	% of authorised capital owned	Accounting method	Own equity (PLN '000)
Bank Handlowy w Warszawie S.A.	banking	parent company	-	-	5 098 642*
Dom Maklerski Banku Handlowego S.A. ("DMBH")	brokerage	subsidiary	100,00%	full consolidation	92 135
Handlowy - Leasing Sp. z o.o.	leasing	subsidiary	100,00%**	full consolidation	203 740
Handlowy Investments S.A.	investments	subsidiary	100,00%	full consolidation	35 823
PPH Spomasz Sp. z o.o., under liquidation	-	subsidiary	100,00%	full consolidation	Entity under liquidation

* *Equity of Bank Handlowy w Warszawie S.A. according to its individual financial statements in respect 1H 2007.*

** *Including indirect shareholdings.*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Business	Capital relationship	% of authorised capital owned	Accounting method	Own equity (PLN '000)
Handlowy Inwestycje Sp. z o.o.	investments	subsidiary	100.00%	equity valuation	14 299
Handlowy Investments II S.a.r.l.	investments	subsidiary	100.00%**	equity valuation	7 737
Bank Rozwoju Cukrownictwa S.A.	Banking	subsidiary	100.00%	equity valuation	40 271

** *Including indirect shareholdings.*

In 1H 2007, no change in the structure of the Group companies occurred.

IV. Selected Financial Data of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Selected Financial Data of the Group

PLN million	30.06.2007	31.12.2006
Total assets	36 790.1	35 990.7
Equity	5 216.8	5 417.8
Loans*	11 861.9	10 196.9
Deposits*	18 560.0	18 880.2
Net profit	439.6	657.1
Capital adequacy ratio	13.17%	14.10%

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

2. Financial Results of the Group in 1H 2007

2.1 Income Statement

In 1H 2007, the Group generated profit before tax of PLN 550 million, i.e. PLN 105 million or 24% higher than in 1H 2007. In the same period, consolidated net profit reached PLN 440 million, which corresponds to an increase by PLN 96 million or 28% as compared to a year earlier equivalent period.

Results of both 1H 2006 and 1H 2007 include profit on one-off events. In 1H 2006, total income from divestment of shares in Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A., Handlowy Zarządzanie Aktywami S.A., Handlowy Heller S.A., an associate entity, and from the sale of an organised part of the Bank's enterprise involved in settlement of card transactions for the Retail Bank amounted to PLN 114 million. Additionally, also in 1H 2006, the Bank posted income in an amount of PLN 6 million on shares allocated by MasterCard. Results of 1H 2007 include PLN 44 million income from: sale of a minority interest in NFI Empik Media & Fashion by Handlowy Investments S.A., a subsidiary of the Bank, sale of shares in MasterCard and in Stalexport S.A. Also in 1H 2007, the Bank posted a provision of PLN 10 million on account of a fine imposed by the Office of Competition and Consumer Protection in the proceeding relating to interchange fees in the banking sector.

At exclusion of these transactions, the Group's profit before tax in 1H 2007 increased, compared to 1H 2006, by PLN 191 million or 59%, while net profit rose by PLN 162 million or 65%.

Compared to 1H 2006, increase in operating income posted by the Group in 1H 2007 reached PLN 208 million or 20%. This income included interest and commission income, dividend income, net gains on financial instruments held for trading and on revaluation, Net gains on investment debt securities, net gains on investment equity securities and net other operating income. In the same period, the Group's Overheads and general administrative expenses and depreciation rose by slightly more than 1%, which represents a positive trend in development of net operating income of the Group.

Summary income statement

PLN '000	1st half 2007	1st half 2006	Change PLN '000	Change %
Net interest income	582 843	508 132	74 711	14.7%
Net commission income	363 660	302 428	61 232	20.2%
Dividend income	801	100	701	701.0%
Net gains on financial instruments held for trading and on revaluation	242 025	178 865	63 160	35.3%
Net gains on investment debt securities	10 740	33 166	(22 426)	(67.6%)
Net gains on investment equity securities	43 993	-	43 993	-
Net other operating income	25 762	38 807	(13 045)	(33.6%)
Overheads and general administrative expenses	(701 281)	(681 796)	(19 485)	(2.9%)
Depreciation	(55 485)	(66 407)	10 922	16.4%
Net gains on sale of fixed assets	(590)	117 289	(117 879)	N/A
Net change in impairment losses	45 663	11 262	34 401	305.5%
Share in net profits/(losses) of entities valued by equity method	(8 514)	2 654	(11 168)	(420.8%)
Profit before tax	**549 617**	**444 500**	**105 117**	**23.6%**
Income tax expense	(110 047)	(100 754)	(9 293)	(9.2%)
Net profit for the period	**439 570**	**343 746**	**95 824**	**27.9%**

2.1.1 Revenue

Operating income achieved in 1H 2007 was PLN 1 269.8, was 19.6% higher than operating income of 1H 2006 of PLN 1 061.5 million, and was driven mainly by the following factors:

- Increase of PLN 74.7 million or 14.7% in net interest income, primarily resulting from increase in income on the portfolio of securities available for sale, at substantial increase in size of that portfolio and increase in interest income on retail and corporate loans and credit cards borrowing;
- Increase of PLN 61.2 million or 20.2% in net commission income, primarily coming from commissions on investment and insurance products in the Consumer Bank segment;
- Net gains on financial instruments held for trading and on revaluation in an amount of PLN 242.0 million, as compared to PLN 178.9 million in 1H 2006. This substantial increase was achieved primarily through effective management of the Bank's trading position as well as active sales of products to the clients;
- Net gains on investment equity securities in an amount of PLN 44.0 million, which came from profit on sale of a minority share interest in NFI Empik Media & Fashion by Handlowy Investments S.A., a subsidiary of the Bank, and the sale of shares in MasterCard and Stalexport S.A.;
- Net other operating income in an amount of PLN 25.8 million as compared to PLN 38.8 million in 1H 2006. This decline in result was primarily a result of the Bank posting, in the second quarter of 2007, of a provision in an amount of PLN 10 million on account of a fine imposed by the Office of Competition and Consumer Protection in the proceeding relating to interchange fees in the banking sector.

2.1.2 Expenses

Expenses

PLN '000	1st half 2007	1st half 2006	Change PLN '000	Change %
Personnel costs	**344 210**	**332 798**	**11 412**	**3.4%**
General administrative expenses, including	**357 071**	**348 998**	**8 073**	**2.3%**
Costs of telecommunication fees and IT hardware	84 339	92 503	(8 164)	(8.8%)
Building maintenance and rent	53 331	54 701	(1 370)	(2.5%)
Advisory, audit, consulting and other services	62 456	64 508	(2 052)	(3.2%)
Total overheads	**701 281**	**681 796**	**19 485**	**2.9%**
Depreciation	55 485	66 407	(10 922)	(16.4%)
Total expenses	**756 766**	**748 203**	**8 563**	**1.1%**

In 1H 2007, marked effects of restructuring activities conducted in the previous years and aimed to improve the rate of return obtained by the institutions through optimisation of costs are already visible. The fall was observed in such cost categories as: telecommunication fees and IT hardware, building maintenance and rent and external services. Saving were also achieved through introduction of tighter controls over other expenses, particularly employee related costs.

One exception are personnel costs, which increased by PLN 11.4 million or 3.4%, as compared with the corresponding period of year earlier, which results, for example, from annual pay increases and growth in employment in sales and retail banking distribution.

2.1.3 Net Impairment Losses of Financial Assets and Difference in the Value of Provisions for Off-Balance Sheet Liabilities

Net Impairment Losses

PLN '000	1st half 2007	1st half 2006	Change PLN '000	Change %
Net impairment losses incurred but not reported (IBNR)	(387)	(748)	361	48.3%
Net impairment losses on loans and off-balance sheet Liabilities	46 050	12 010	34 040	283.4%
accounted for individually	51 362	22 148	29 214	131.9%
accounted for collectively (on a portfolio basis)	(5 312)	(10 138)	4 826	47.6%
Total change in impairment losses	**45 663**	**11 262**	**34 401**	**305.5%**

In 1H 2007, releases (net) of impairment loss charge-off occurred on a large scale, mainly as a result of repayment of corporate loans, which were achieved through effective debt restructuring collection taking place under favourable macroeconomic conditions.

2.2 Balance Sheet

As at 30 June 2007, total assets of the Group amounted to PLN 36 790.1 million and were 2.2% higher than at the end of 2006.

Balance sheet

	As at		**Change**	
PLN '000	**30.06.2007**	**31.12.2006**	**PLN '000**	**%**
ASSETS				
Cash and balances with central bank	2 073 502	535 623	1 537 879	287.1%
Financial assets held for trading	4 754 021	4 556 471	197 550	4.3%
Debt securities available-for-sale	8 905 521	8 247 313	658 208	8.0%
Equity investments valued by equity method	59 395	67 910	(8 515)	(12.5%)
Equity investments	28 611	54 618	(26 007)	(47.6%)
Loans and advances	18 167 774	19 516 218	(1 348 444)	(6.9%)
to financial sector	6 305 906	9 319 272	(3 013 366)	(32.3%)
to non-financial sector	11 861 868	10 196 946	1 664 922	16.3%
Property and equipment	622 147	638 246	(16 099)	(2.5%)
land, buildings and equipment	606 797	628 860	(22 063)	(3.5%)
investment property	15 350	9 386	5 964	63.5%
Intangible assets	1 281 972	1 285 753	(3 781)	(0.3%)
Deferred income tax	260 589	274 124	(13 535)	(4.9%)
Other assets	632 436	801 920	(169 484)	(21.1%)
Non-current assets available-for-sale	4 179	12 539	(8 360)	(66.7%)
Total assets	**36 790 147**	**35 990 735**	**799 412**	**2.2%**
LIABILITIES				
Liabilities towards the central bank	-	250 113	(250 113)	-
Financial liabilities held for trading	3 692 286	3 316 847	375 439	11.3%
Financial liabilities valued at amortized cost	26 077 572	25 991 136	86 436	0.3%
Deposits from	25 075 939	25 036 782	39 157	0.2%
financial sector	6 515 932	6 165 605	350 327	5.7%
non-financial sector	18 560 007	18 880 177	(320 170)	(1.7%)
other liabilities	1 001 633	954 354	47 279	5.0%
Provisions	48 292	44 378	3 914	8.8%
Income tax	14 657	5 687	8 970	157.7%
Other liabilities	1 740 543	964 771	775 772	80.4%
Total liabilities	**31 573 350**	**30 572 932**	**1 000 418**	**3.3%**
EQUITY				
Issued capital	522 638	522 638	-	0.0%
Share premium	3 028 809	3 027 470	1 339	0.0%
Revaluation reserve	(185 538)	(81 501)	(104 037)	(127.7%)
Other reserves	1 446 371	1 407 081	39 290	2.8%
Retained earnings	404 517	542 115	(137 598)	(25.4%)
Total equity	**5 216 797**	**5 417 803**	**(201 006)**	**(3.7%)**
Total liabilities and equity	**36 790 147**	**35 990 735**	**799 412**	**2.2%**

2.2.1 Assets

Gross loan receivables*

PLN '000	As at 30.06.2007	As at 31.12.2006	Change PLN '000	Change %
Banks and other monetary financial institutions	5 827 051	8 907 986	(3 080 935)	(34.6%)
Non-banking financial institutions	561 684	502 516	59 168	11.8%
Non-financial sector entities	8 966 152	7 817 887	1 148 265	14.7%
Individuals	4 120 817	3 630 594	490 223	13.5%
Government units	165 488	286 361	(120 873)	(42.2%)
Other receivables	5 773	3 581	2 192	61.2%
Total	**19 646 965**	**21 148 925**	**(1 501 960)**	**(7.1%)**

** receivables with payable interest*

1H 2007 brought about a significant change in the level of loan receivables of the Group. Worth noting is the fact that this was the first extended period in a long time in which the Group posted an increase in the loan portfolio with exposure to non-financial sector clients. In the segment of non-financial economic entities this growth amounted to PLN 1 148.3 million or 14.7%, whereas in the segment of individuals reached PLN 490.2 million or 13.5%.

The second largest asset category is the portfolio of debt securities. Its high quality (primarily in Treasury bonds) is informed by the benefits accruing from stable growth of these instruments in the market and by the need for effective use of cash funds the Group has at its disposal following gradual reduction in the corporate loans portfolio which occurred over the past few years.

Debt securities portfolio

PLN '000	As at 30.06.2007	As at 31.12.2006	Change PLN '000	Change %
Treasury bonds	7 507 382	9 149 123	(1 641 741)	(17.9%)
NBP bonds	368 726	378 413	(9 687)	(2.6%)
Treasury bills	61 336	73 153	(11 817)	(16.2%)
Certificates of deposit and banks' bonds	107 723	125 679	(17 956)	(14.3%)
Issued by non-financial entities	60 641	54 476	6 165	11.3%
Issued by financial entities	103 136	43 834	59 302	135.3%
NBP bills	2 097 600	-	2 097 600	-
Total	**10 306 544**	**9 824 678**	**481 866**	**4.9%**

2.2.2 Liabilities

Financial liabilities valued at amortized cost

PLN '000	As at 30.06.2007	As at 31.12.2006	Change PLN '000	Change %
Due to financial sector	**6 487 493**	**6 112 732**	**374 761**	**6.1%**
- banks and other monetary financial institutions	2 943 854	3 660 266	(716 412)	(19.6%)
- due to non-banking financial sector	3 543 639	2 452 466	1 091 173	44.5%
Due to non-financial sector including:	**18 543 045**	**18 860 452**	**(317 407)**	**(1.7%)**
- corporate clients	12 597 077	13 134 144	(537 067)	(4.1%)

- individuals	4 510 110	4 232 056	278 054	6.6%
Other liabilities including accrued interest:	**1 047 034**	**1 017 952**	**29 082**	**2.9%**
Total	**26 077 572**	**25 991 136**	**86 436**	**0.3%**

Amounts due to non-financial sector clients were the major source of funding of the Group's assets. The amounts due to corporate clients decreased by PLN 537.1 million or 4.1%, as compared with the end of 2006, while amounts due to individuals increased by PLN 278.1 million or 6.6%. The latter increase was linked with the promotional offer of the Citibank Savings Account. At the time of its launch, the Citibank Savings Account offered the highest interest on funds collected there available on the market. As a result, the Account product met with very high interest of customers.

In the amounts due to non-financial sector category significant growth, by PLN 1 091.2 million or 44.5%, was registered in the deposits of non-banking financial sector entities.

The fact that unrealised gains/losses on derivative instruments accounted for a considerable proportion of assets and liabilities is also significant and reflects the scale of the Group's off-balance sheet purchase and sale transactions. The carrying value of these instruments is presented in "Financial assets held for trading" and "Financial liabilities held for trading".

2.2.3 Sources and Uses of Funds

Source of funds	**30.06.2007**	**31.12.2006**
Funds of banks and other monetary financial institutions	3 518 294	4 118 794
Funds of customers and government units	22 559 278	21 872 342
Own funds with net income	5 216 797	5 417 803
Other external funds	5 495 778	4 581 796
Total source of funds	**36 790 147**	**35 990 735**
Use of funds	**30.06.2007**	**31.12.2006**
Receivables from banks and other monetary financial institutions	5 820 246	8 898 414
Receivables from customers and government units	12 347 528	10 617 804
Securities, shares and other financial assets	13 747 548	12 926 312
Other uses of funds	4 874 825	3 548 205
Total use of funds	**36 790 147**	**35 990 735**

2.3 Equity and Capital Adequacy Ratio

Compared to 2006, the Group's equity in 1H 2007 remained at nearly unchanged level. Despite an increase of PLN 39.9 million in supplementary capital, being part of the net profit for the year 2006, and an increase in retained earnings of PLN 79.3 million, revaluation reserve decreased by PLN 104.0 million, primarily at revaluation of financial assets available for sale.

Equity

PLN '000	**As at**		**Change**	
	30.06.2007	**31.12.2006**	**PLN '000**	**%**
Issued capital	522 638	522 638	-	0.0%
Share premium	3 028 809	3 027 470	1 339	0.0%
Supplementary capital	1 055 428	1 015 567	39 861	3.9%
Revaluation reserve	(185 538)	(81 501)	(104 037)	(127.7%)
General risk reserve	390 000	390 000	-	0.0%
Retained earnings	(34 110)	(113 427)	79 317	69.9%
Total equity	**4 777 227**	**4 760 747**	**16 480**	**0.3%**
Tier 1 capital	4 996 875	4 955 675	41 200	0.8%
Tier 2 capital	(185 538)	(81 501)	(104 037)	(127.7%)

PLN '000	As at		Change	
	30.06.2007	**31.12.2006**	**PLN '000**	**%**
Other equity	(34 110)	(113 427)	79 317	69.9%

The Group's capital is fully sufficient to ensure financial security to the institution and the deposits it accepts and to ensure its financial growth.

As at 30 June 2007, capital adequacy ratio of the Group stood at 13.17%, down 0.93 percentage points compared with the end of 2006. In 1H 2007, the capital requirement increased by PLN 161.5 million, which resulted mainly from an increase of PLN 74.0 million in the credit risk related capital requirement, related to an increase in risk-weighted off-balance sheet assets and contingent liabilities.

Capital adequacy ratio

PLN '000	**30.06.2007***	**31.12.2006****
Own funds total	**4 774 921**	**4 760 747**
Less:	1 341 368	1 369 830
- goodwill	1 245 976	1 245 976
- other intangible assets	35 996	39 777
- interests in subordinated financial entities	59 396	84 077
Own funds for the calculation of capital adequacy ratio	**3 433 553**	**3 390 917**
Risk-weighted assets and off-balance sheet liabilities (bank portfolio)	**16 323 752**	**15 398 733**
Total capital requirement, including:	**2 085 081**	**1 923 574**
- capital requirement to cover credit risk	1 305 900	1 231 899
- capital requirement to cover excess exposure concentration and large	365 707	327 073
- total capital requirements to cover market risk	287 129	248 418
- other capital requirements	126 345	116 184
Capital adequacy ratio	**13.17%**	**14.10%**

**Calculated according to the rules stated in the Resolution No 1/2007 of Commission for Banking Supervision dated 13 March 2007 regarding the extent and detailed rules of calculation of capital requirements due to particular risks (...) (Dz. Urz. NBP Nr 2, poz. 3).*

****Calculated according to the rules stated in the Resolution No 4/2004 of Commission for Banking Supervision dated 8 September2007 regarding the extent and detailed rules of calculation of capital requirements due to particular risks (...) (Dz. Urz. NBP Nr 15, poz. 25).*

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 1H 2007

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 the framework of a given industry of the customer. In addition, individual borrowers are continuously monitored so that signs of deterioration in creditworthiness can be detected promptly and appropriate corrective steps can be taken as needed. In 1H 2007, the Group had continued further development of its credit policy rules and credit offer for small and medium-sized enterprises (SMEs).

The portfolio of receivables from individuals is managed on the basis of scoring models that calculate risk and return on respective segments of the loan portfolio. In 1H 2007, the Bank continued upgrading its retail risk management processes through employment of the mentioned statistical models. An amended scoring model is now used in the credit risk assessment process.

Lending to non-bank customers, gross

	As at		Change	
PLN '000	**30.06.2007**	**31.12.2006**	**PLN '000**	**%**
Loans in PLN	12 172 285	10 662 605	1 509 680	14.2%
Loans in foreign currency	1 517 793	1 578 334	(60 541)	(3.8%)
Total	**13 690 078**	**12 240 939**	**1 449 139**	**11.8%**
Loans to non-financial sector	13 092 742	11 452 062	1 640 680	14.3%
Loans to financial sector	431 848	502 516	(70 668)	(14.1%)
Loans to public sector	165 488	286 361	(120 873)	(42.2%)
Total	**13 690 078**	**12 240 939**	**1 449 139**	**11.8%**
Non-financial corporates	8 966 152	7 817 887	1 148 265	14.7%
Individuals	4 120 817	3 630 594	490 223	13.5%
Non-bank financial entities	431 848	502 516	(70 668)	(14.1%)
Public entities	165 488	286 361	(120 873)	(42.2%)
Other non-financial receivables	5 773	3 581	2 192	61.2%
Total	**13 690 078**	**12 240 939**	**1 449 139**	**11.8%**

As at 30 June 2007, gross credit exposure to the non-financial sector amounted to PLN 13 690.1 million, representing an increase of 11.8% as compared with 31 December 2006. The largest part of the non-financial sector credit portfolio, being loans to non-financial corporates (65.5%), increased by 14.7% in 1H 2007. Improved value of outstanding loans resulted from the financial support granted to corporate customers through funding of their capital investments and their growing need for working capital. Loans to individuals grew in comparison with the end of 2006 by 13.5% to PLN 4 120.8 million. Growth in loans to individuals has come from a combination of expansion of our sales points operating under the CitiFinancial brand, expansion of the target retail market and reduction of the income thresholds in the credit application process.

As at 30 June 2007, the currency structure changed slightly as compared with the end of 2006. The share of foreign currency loans, which as at 31 December 2006 stood at 12.9%, decreased to 11.1% by 30 June 2007. Worth noting that the Group grants foreign currency loans to customers who have foreign currency cash flows or those who, in the Group's opinion, are able to predict or absorb the currency risk without significant deterioration of their financial position (mainly corporate customers). To individual borrowers only cash secured overdrafts, mortgage secured general purpose loans and mortgage housing loans were offered selectively in foreign currency.

The Group monitors the concentration of its exposure on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. As at 30 June 2007, the Group's portfolio exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposures vis-à-vis the 10 largest non-financial borrowers of the Group:

PLN '000	30.06.2007			31.12.2006		
	Balance Outstanding*	**Off-Balance Outstanding**	**Total Outstanding**	**Balance Outstanding***	**Off-Balance Outstanding**	**Total Outstanding**
Group 1	369 588	140 580	510 168	327 613	144 832	472 445
Group 2	275 369	180 863	456 232	180 299	360 088	540 387
Group 3	11	418 966	418 977	255 437	130 836	386 273
Client 4	120 699	279 409	400 108	241 001	159 164	400 165
Client 5	186 517	163 483	350 000	127 231	302 773	430 004
Group 6	107 850	211 602	319 452	106 960	260 442	367 402
Group 7	66 378	246 922	313 300	71 468	194 543	266 011
Group 8	98 566	212 009	310 575	1 982	105 839	107 821
Group 9	95 561	206 282	301 843	5	309 856	309 861
Group 10	33 043	253 664	286 707	36 440	50 468	86 908
Total 10	**1 353 582**	**2 313 780**	**3 667 362**	**1 348 436**	**2 018 841**	**3 367 277**

** Excluding equity and other securities exposures*

1.2 Loan Portfolio Quality

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

At 30 June 2007, the share of loans at risk of impairment constituted 12.4% of the total portfolio while, as at 31 December 2006, it constituted 15.5% of the total portfolio. The decrease was related to the classifiable portfolio accounted for individually and was related to the repayment of outstanding amounts in that customer group.

Loans to non-financial sector (gross) by the risk of impairment

	As at			
PLN '000	30.06.2007		31.12.2006	
Loans to non-banking sector, gross				
	PLN '000	Share in %	PLN '000	Share in %
Not at risk of impairment	11 986 019	87.6%	10 346 653	84.5%
At risk of impairment	1 704 059	12.4%	1 894 286	15.5%
accounted for individually	1 231 394	9.0%	1 385 255	11.3%
accounted for collectively (on a portfolio basis)	472 665	3.5%	509 031	4.2%
Total loans to non-banking sector, gross	**13 690 078**	**100.0%**	**12 240 939**	**100.0%**

Management Board believes that provisions for receivables reflect the actual impairment of the portfolio, taking into account the discounted forecast of future cash flows associated with the repayment of receivables. Moreover, the provisions are estimated for each receivable irrespective of their portfolio attribution and for incurred but not reported losses.

Impairment of non-bank loan portfolio

	As at		Change	
PLN '000	**30.06.2007**	**31.12.2006**	**PLN '000**	**%**
Impairment due to incurred but not reported (IBNR) losses	58 060	55 916	2 144	3.8%
Impairment of receivables	1 414 323	1 567 219	(152 896)	(9.8%)
accounted for individually	1 030 095	1 153 549	(123 454)	(10.7%)
accounted for collectively (on a portfolio basis)	384 228	413 670	(29 442)	(7.1%)
Total impairment	**1 472 383**	**1 623 135**	**(150 752)**	**(9.3%)**
Total provision coverage index	10.8%	13.3%		
Provision coverage index for receivables at risk	83.0%	82.7%		

1.3 Off-Balance Sheet Exposures

As at 30 June 2007, off-balance sheet exposures amounted to PLN 12 635.3 million, representing an increase by1.9% as compared with 31 December 2006. The largest change related to unused commitments lines, which represented 76.8% of off-balance sheet contingent liabilities and which increased by PLN 532.6 million (5.8%). This was due to increase in revolving loans and an increase in overdrafts.

Off-balance sheet exposures

	As at		Change	
PLN '000	**30.06.2007**	**31.12.2006**	**PLN '000**	**%**
Guarantee	2 383 878	2 779 418	(395 540)	(14.2%)
Letters of credit issued	218 238	155 296	62 942	40.5%
Third-party confirmed letters of credit	31 017	40 270	(9 253)	(23.0%)
Committed loans	9 710 188	9 177 576	532 612	5.8%
Underwriting	262 000	217 000	45 000	20.7%
Forward placements	30 000	24 860	5 140	20.7%
Total	**12 635 321**	**12 394 420**	**240 901**	**1.9%**
Provisions for off-balance sheet liabilities	20 648	24 258	(3 610)	(14.9%)
Provision coverage index	0.16%	0.20%		

As at 30 June 2007, the total amount of collateral held on accounts (or assets) of borrowers amounted to PLN 4 590 million, whereas, as at 31 December 2006 it stood at PLN 5 032 million.

In 1H 2007, the Group issued 2 019 enforcement titles amounting to PLN 23.6 million while in 1H 2006 the number of enforcement titles stood at 2 085 amounting to PLN 67 million.

2. External Funding

As at 30 June 2007, the total value of external funding of the Group was PLN 26 077.6 million and was higher by PLN 86.4 million (0.3%) as compared with 31 December 2006.

External funding

PLN '000	As at 30.06.2007	As at 31.12.2006	Change PLN '000	Change %
Due to financial sector	**6 515 932**	**6 156 605**	**359 327**	**5.8%**
Funds on current accounts, including:	1 786 798	1 334 998	451 800	33.8%
- funds on current accounts of banks and other monetary financial institutions	*1 414 785*	*1 197 581*	*217 204*	*18.1%*
Deposits, including:	4 700 696	4 777 734	(77 038)	(1.6%)
- deposits of banks and other monetary financial institutions	*1 529 069*	*2 462 685*	*(933 616)*	*(37.9%)*
Accrued interest	28 438	43 873	(15 435)	(35.2%)
Due to non-financial sector	**18 560 007**	**18 880 177**	**(320 170)**	**(1.7%)**
Funds on current accounts, including:	6 611 721	5 770 674	841 047	14.6%
- corporate clients	*3 540 189*	*3 509 698*	*30 491*	*0.9%*
- individual	*2 590 534*	*1 737 527*	*853 007*	*49.1%*
Deposits, including:	11 931 323	13 089 778	(1 158 455)	(8.9%)
- corporate clients	*9 056 888*	*9 624 446*	*(567 558)*	*(5.9%)*
- individual	*1 919 576*	*2 494 529*	*(574 953)*	*(23.0%)*
Accrued interest	16 963	19 725	(2 762)	(14.0%)
Other liabilities, including:	**1 001 633**	**954 354**	**47 279**	**5.0%**
Sell-Buy-Backs	214 877	223 329	(8 452)	(3.8%)
Accrued interest	3 251	3 808	(557)	(14.6%)
Total external funding	**26 077 572**	**25 991 136**	**86 436**	**0.3%**

The largest change in external funding was recorded for non-financial entities where a substantial increase occurred on current accounts of individuals: by PLN 853 million or 49.1%. The increase was linked with the promotional offer of the Citibank Savings Account. At the time of its launch, the Citibank Savings Account offered the highest interest on funds collected there available on the market. As a result, the Account product met with very high interest of customers. At the same time, corporate and retail deposits declined.

Liabilities to non-bank customers

PLN '000	As at 30.06.2007	As at 31.12.2006	Change PLN '000	Change %
Liabilities towards:				
Individuals	4 611 843	4 303 314	308 529	7.2%
Non-financial economic entities	13 246 627	13 789 474	(542 847)	(3.9%)
Non-profit institutions	375 981	442 064	(66 083)	(14.9%)
Non-bank financial institutions	3 382 366	2 453 680	928 686	37.8%
Public sector	633 329	561 544	71 785	12.8%
Other liabilities	68 784	68 173	611	0.9%
Total	**22 318 930**	**21 618 249**	**700 681**	**3.2%**
PLN	17 041 413	16 569 474	471 939	2.8%
Foreign currency	5 277 517	5 048 775	228 742	4.5%
Total	**22 318 930**	**21 618 249**	**700 681**	**3.2%**

3. Corporate and Investment Bank

3.1 Transaction Services

The Bank offers comprehensive, differentiated and modern products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, such as current bank accounts, domestic and international money transfers, accepting deposits, granting overdrafts, the Bank has extensively broadened its product offer and carried out acquisition of customers in the scope of more sophisticated transaction services including flagship electronic and web-based banking proposals.

3.1.1 Transaction Servicing

a) Payments and Receivables

The Unikasa payment network was singled out for the prestigious Europrodukt award. The honour crowns the five years of the product's presence on the market. Unikasa was the first payment network in Poland to provide the option of payment of bills in selected service points. In addition to its dynamic growth in Poland, Unikasa now has opportunities for expansion into new markets in Europe and Asia (Greece, Turkey, Pakistan).

In response to consumer expectations, in March 2007, the Bank implemented a special internet purchase payment facility operating via the Unikasa Network system. Before the end of the year, the Bank plans to enable customers of 150 internet shops this form of transaction settlement.

In May a campaign promoting Unikasa on the Polish market was launched. Its main goal is to disseminate information on the system's new functionality – payments for purchases made in internet shops. The number of hits on Unikasa's website is expected to raise up to as many as 3.7 million.

Settlements in non-standard currencies were launched in the second quarter of 2007. The offer was addressed to clients whose business involves trade relations with partners in countries of Eastern Europe (Bulgaria, Croatia, Ukraine), Asia (Singapore, South Korea, India), America (Mexico) or Africa (Egypt, Morocco). The solution is unique in market terms, as it facilitates previously inaccessible cross boarder settlement functionalities.

In the first quarter of 2007, the Bank began preparing a new offer aimed to bring into a single package three receivables related products currently offered separately: SpeedCollect, Unikasa and Direct Debit. The new package, with commercial name of Integrated Receivables Processing, will streamline documentation handling for the clients (one instead of three agreements) leaving them the choice of the product they wish to implement. Each of the products forming part of the package will be also offered separately.

The Bank has began working with other domestic banks and the National Clearing House on a project aimed at improving customer complaint and enquiry response tools. The initiative is expected to improve satisfaction of the customers the Bank serves.

Compared to 1H 2006, the volume of international payments the Bank serviced increased in 1H 2007 by 20%, and that of domestic payments rose by 4%.

b) Liquidity and Cash Management Products

In 1H 2007, the Bank implemented the International Accounts Consolidation product in three currencies: EUR, USD and PLN. Programs of that type enable consolidation of funds (debit and credit balances) in a single Consolidation Centre, within which balances in the abovementioned currencies participate in liquidity management structures, referred to as Multicurrency Cash Pooling, thus eliminating the need for translation of these currencies into EUR or another currency prior to performance of an operation and their subsequent reverse translation at their return to local accounts.

The described solution delivers tangible interest benefits for multinational capital groups operating in various countries.

In the second quarter of 2007, the Bank implemented for one of its key clients the International Accounts Consolidation product in three currencies: EUR, USD and PLN.

In the second quarter of 2007, the Bank launched another new product, that of subrogation, in other words, physical cash pool. The solution enables actual consolidation of balances on accounts of clients forming part of capital groups. Inclusion of this product in the Bank's offer strengthens its position on the market, particularly in the field innovative solutions which support liquidity management.

c) Electronic Banking

The Bank continues to increase quality of service through further automation of its processes. In 1H 2007, it registered further increase in the number of electronically delivered bank statements. By the end of the period, the share of thus transferred the bank statements increased to 85%.

In 1H 2007, the number of clients taking advantage of Citidirect, the Bank's electronic banking platform, grew by 668 while the number of users of this facility increased by 2 766. As at the end of June 2007, a total of 44 000 users representing nearly 7 000 of the Bank's clients used that service channel.

d) Account Services

It was with its corporate banking segment clients in mind that the Bank developed the Consolidated Bank Account Agreement, which facilitates activation of electronic banking, the Online Trading platform and of debit cards in parallel to opening of a regular bank account. The new streamlined procedure materially reduces the number of documents a client needs to sign, leading to increased customer satisfaction in cooperation with the Bank.

e) Card Products

In the first quarter of 2007, the Bank expanded its offer by launching a new product with commercial name of Mikrowpłaty (MicroPayments). It is a product especially designed for the needs of the courts and the prosecution administration and facilitates calculation of interest on various charges, bail and other deposits, in compliance with requirements of the Polish law.

The Bank has been active in stimulating the development of the prepaid payment cards market. Its cooperation with public sector institutions, which chose to dispense social transfers with the use of prepaid cards, has been the key source of the growth there. In the first quarter of 2007, the Bank closed its first agreement with a County Labour Office for issuance of Prepaid Payment Cards to recipients of unemployment benefits.

The joint projects developed with public sector institutions have strengthened the Bank's position of leadership within that market segment.

As at 30 June 2007, the number of prepaid cards issued by the Bank reached 234 000 while the number of business cards it issued stood at 15 500.

Also, in 1H 2007, the Bank entered into an agreement with Poland's leading ATM network operator. As a result of that agreement, the Bank expanded the network of ATMs that holders of the cards issued by the Transaction Banking Division can now freely use.

3.1.2 Trade Finance Products

The key tasks, achievements, transactions and programs in trade finance implemented in 1H 2007:

- Factoring finance related turnover rose by 66% compared to the equivalent period of the year 2006 and totalled PLN 229 million;
- The Bank has become the leading provider of finance for the Polish construction sector suppliers, the expression of which is the growing number of programs the Bank underwrites and the value of financing provided within them. In 1H 2007, the Bank implemented a supplier financing program for one of the leading cement manufacturers in Poland and acquired as its client one more leading construction company;

- Agreement and extension of the terms of cooperation with the export credit insurance institution Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (KUKE), which enable the clients to continue using the Bank's trade receivables financing offer;
- Implementation of new trade receivables financing programs, both domestic and international with limited recourse, for two chemical sector players.

3.1.3 Custody and Depositary Services

In 1H 2007, the Bank retained its position of leadership in the segment of bank depositaries in Poland. It offers both custody services to foreign institutional investors and depository services to the Polish financial institutions, especially pension funds, investment funds and investment funds with insurance options.

The Bank operates securities accounts, settles securities transactions, handles dividend and interest payments, performs portfolio valuations, prepares individual reports and arranges for customer representation at general shareholder meetings of listed companies. It also maintains registers of foreign securities, which also involves intermediation in the settlement of transactions for domestic customers on foreign markets.

Furthermore, the Bank processes transactions closed by corporate customers on the electronic platform for trading in debt securities, operating under the name of MTS-Poland and organised by MTS-CeTO S.A., and processes transaction in securities for remote members of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE) and MTS-CeTO S.A. We have noted a evident increase in interest of foreign brokers in the product intended for remote members of the WSE, which raises reasonable expectation that activity in that new customer segment is going to increase, translating into greater volumes of transactions settled by the Bank.

In 1H 2007, the Bank continued activities aimed at honing the effective legislation regulating the securities market and through its delegated representatives participated in the work of the Council of Depositary Banks at the Association of Polish Banks and the advisory committee at Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities or NDS). The strong position of the Bank justifies its presentation of draft amendments to regulations and development of practices that aim to bring the market rules to international standards. Employees of the Bank contribute their resources, experience and expertise as they cooperate with the Polish Financial Supervision Authority, NDS and WSE at introduction of new systemic solutions.

As at 30 June 2007, the Bank maintained 11 021 securities accounts.

In 1H 2007, the Bank was the depositary for seven Open Pension Funds:

- AIG OFE
- Commercial Union OFE BPH CU WBK
- Generali OFE
- ING Nationale Nederlanden Polska OFE
- OFE Pocztylion
- Pekao OFE
- Nordea OFE

and also for:

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

The Bank also acted as the depositary of 32 investment funds and sub-funds managed by the following investment companies:

- BZ WBK AIB TFI S.A.
- PIONEER PEKAO TFI S.A.
- PKO TFI S.A.

- SEB TFI S.A.
- LEGG MASON TFI S.A.
- GE Debt TFI S.A.

3.1.4 EU Office

In 1H 2007, the EU Office began implementation of the growth strategy based on utilization of the EU funds of the previous budgeting period of 2004-2006 and of the budget allocated to Poland for the years 2007-2013.

In the early months of 1H 2007, it started accepting applications under the Support for Investing Enterprises Action, which heightened the Bank's activity in the field of issuing commitments for financing of EU projects.

As at 30 June 2007, implementation of the Operational Programmes currently negotiated by the Ministry of Regional Development was not completed, however, the EU Office had maintained relationships with the Bank's clients interested in cooperation once the EU funds become effectively available.

3.2 Treasury

In 1H 2007, the Bank retained its position of leadership in the market of foreign exchange transactions with non-banking customers. The turnover in this segment increased by 54% as compared with the equivalent period a year earlier.

The Bank's clients assessed its FX transaction internet platform very highly. As the results demonstrate, the internet platform proved to be an excellent tool for acquisition of new clients, interested in access to attractive FX transaction prices and in the FX risk exposure hedging products. The Bank intends to continue the strategy of further developing this product.

In the market of compound derivatives, the Bank provided to corporate clients commodity transaction and interest rate risk hedging solutions. The diversified range of these structured products reinforced the Bank's position in that market. The Bank delivered to the market a number of innovative corporate finance solutions linked to derivative instruments structuring FX and interest rate risk.

The institutional investors were given access to offerings of a PLN 60 million 3-Year Maspex Bond, a PLN 25 million Toyota Bond and a PLN 28 million VW Leasing Bond, which met with very good response. The Bank also signed an agreement with Ford Credit and Ford Bank for a new PLN 1 billion debt issue programme.

1H 2007 was a period of further reinforcement of the Bank's position in the foreign exchange market of derivative instruments, particularly in the small and medium-sized enterprise sector. The level of turnover on FX options with non-banking customers rose by 50%, compared to the equivalent period a year earlier, reaching PLN 9.8 billion. Income on this product grew in the same measure, thus confirming the fact that the Bank has maintained a consistent pricing strategy.

The first 6 months of the year 2007 was also a good period for market-linked deposits.

The Bank maintained the volumes at the levels of 2H 2006 while increasing revenue from these transactions. The positive result was achieved through marketing of novel product solutions, such as exotic stock market indices, the short-term offers and the broad-based subscriptions.

In the case of T-bond trading with financial institution counterparties, the trading volume in 1H 2007 increased by 17% compared to 2H 2006. The growth reflects the general improvement in investor sentiment vis-à-vis Emerging Markets. The retention of market share in government securities trading with financial institutions contributed to the robust results achieved on the bank's trading portfolio.

In the interbank market, the first 6 months of 2007 was a period marked by success in implementation of the chosen business strategy resulting in exceptionally good result, chiefly on the derivatives and FX portfolios.

The Bank continued in its role of a Market Maker for FX and interest rate derivative instruments, which bring into focus the important contributions of the Bank to maintaining liquidity in the market and stability of the financial system.

3.3 Commercial Banking

The Bank is the leader of the commercial banking market in Poland. Its share in total corporate loans reached 5.1% at the end of 1H 2007, as compared with 4.6% at the end of 2006, while its share in total corporate deposits was 9% as compared with 9.5% at the end of 2006. The Bank's share in the issues of short-term debt securities, measured in terms of the issued debt, declined to 15.9% as at 30 June 2007 from 16.1% as at 31 December 2006.

The corporate service model the Bank follows combines broad product range with fully individualised service.

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

The Bank's position is particularly strong in servicing international corporations and the largest Polish companies. Moreover, it is the foremost institution in handling money market and foreign exchange transactions. The Bank's goal is to retain its present market share in these areas. In developing relationships with the largest clients, the Bank has the significant advantage of being a member of Citigroup. The Bank can offer to these clients some unique services that blend its own knowledge of the local business environment with the international experience and global reach of Citigroup.

3.3.1 Corporate and Investment Bank

In the corporate banking business, the Bank delivers comprehensive financial services to over 130 of the largest Polish and international corporates, which, in addition to the needs served through the core product range, require financial engineering advisory. In that area, the Bank provides coordination of treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovativeness and competitiveness of the novel financing structures on offer comes from a combination of local expertise and experience and cooperation within the global Citigroup structure.

In 1H 2007, the Bank continued to extend active support to its clients' domestic and international growth and expansion as it provided stand-alone financing, participated in the largest syndicated loan facilities and provided the necessary research and advisory. In addition to collaboration with its existing clients, the Bank actively developed business cooperation with new dynamic Polish companies, leaders in their respective sectors.

The most notable corporate banking transactions in 1H 2007 included:

- Closing of a loan agreement financing the construction of a power generation unit and the comprehensive modernization program of the Elektrownia Bełchatów S.A. (BOT) power plant. This transaction of EUR 604 million is currently the largest syndicated loan for the electrical energy sector in Poland. It gained the Bank the highly prestigious European Project Finance 2006 Power Deal of the Year award;
- Organization of a 10-year bond issue for the purpose of financing the construction of a new power generation unit in a Polish power plant. The total issue program amounts to PLN 650 million. The bond will be issued in 6 series over the three-year investment project implementation period. This constitutes the first structured corporate bond program on the Polish market. The Bank acted in the transaction as the structuring bank and the lead co-arranger;
- Completion of a structured transaction with PKP S.A., the Polish state railways. The transaction involves granting of a syndicated loan in an amount of EUR 130 million linked with an interest rate risk hedge. The lending syndicate, which the Bank was the lead arranger of, included a total of 9 banks. The two transactions are an outcome of a longstanding and fruitful collaboration of the

Bank with the Polish state railways, while their preparation was particularly complex due to the EU regulations on state aid to enterprises;

- Closing of a takeover deal in which Computerland bought out the IT company Emax. The PLN 480 million transaction, in which the Bank was mandated the adviser, was one of the main M&A events of the past year in Poland;
- Closing of a 3-year working capital facility agreement with PKP Polskie Linie Kolejowe S.A. The total transaction value stands at PLN 500 million and involves two banks. Bank Handlowy w Warszawie S.A. acted as the facility arranger and agent. The Bank won this transactions in a public tender for financing of PKP PLK S.A. settled in May 2007.

In 1H 2007, Bank Handlowy w Warszawie S.A. retained its position of the leading bank in Poland in distribution of short-term debt securities (up to one year) in terms of issue value, with a market share of 28.7% (top rank) and in terms of total debt outstanding, with a market share of 15.9% (ranked third). In issuance of bank short-term debt securities (bonds and certificates of deposit), it holds the second position in the market, with a market share (calculated as outstanding traded debt), , as at 30 June 2007, of 28.3% (data after the 30 June 2007 Fitch Ratings Bulletin).

3.3.2 Commercial Bank

In the Commercial Bank Division, the Bank serves clients with annual revenue in excess of PLN 8 million and up to PLN 1 billion.

In 1H 2007, the Commercial Bank serviced accounts of approximately 6.5 thousand clients, as compared to approximately 23 thousand entities operating in the entire Polish market that meet the abovementioned criterion.

At the same time, as a result of adoption of a revised approach to acquisition of new clients combined with a successful and efficient execution of a number of dedicated client acquisition campaigns addressed to pre-selected client groups, in 1H 2007 the Commercial Bank acquired over 711 new clients, which constitutes a 89% growth on the year earlier equivalent period.

The robust result of the acquisition effort was further supported through the launch of a new loan program and introduction of certain innovative FX product solutions: an internet based FX transaction platform.

As at the end of 1H 2007, the Commercial Bank registered a 13% asset base growth on the year earlier equivalent period end, with the growth in the small and medium enterprise segment (SMEs defined as clients with annual sales of PLN 8 million to PLN 75 million) reaching 48%. In the same period, deposits of the Commercial Bank clients grew by 7%.

Because the SME segment clients are the main beneficiaries of the grant funding awarded by the EU within the new budgeting period, EU advisory services are being offered to these clients through the EU Office operating in the Bank. The clients can take advantage of specialised services at every stage of their grant application process: research of the available funding sources, grant application development, to project cost reconciliation and settlement.

With the new distribution channel for the FX transactions (the Online Trading platform) in place in 1H 2007, the Commercial Bank registered a 55% growth, on the year earlier equivalent period end, in the value of the FX transactions effected by its clients.

The offer addressed to the Public Sector includes an attractive long term investment loan co-financed by the Kreditanstalt für Wiederaufbau bank in collaboration with the European Commission; available within the framework of the Municipal Finance Facility investment project financing programme.

Another solution broadly offered to the Public Sector in 1H 2007 were the prepaid bank cards. Organisation of a targeted acquisition campaign together with a number of central and regional conferences resulted in closing of a number of new agreements with Municipal Social Assistance Centres, under which we issued over 60 000 such cards.

The Bank also offered the Public Sector the Mikrowpłaty (MicroPayments) service, which is a new tool for management of third part cash deposits (e.g. bid bonds, security deposits).

3.4 Brokerage

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

In the course of the past 6 months of 2007, market share of DMBH in equities trading declined from 11.5%, as at 31 December 2006, to 8.6%, as at 30 June 2007. The primary source of the market share decline was a shift in the structure of trading on the Warsaw Stock Exchange (WSE) by investor groups. Participation in this trading of foreign investors and domestic pension funds declined. At the same time, activity of retail investors and domestic investment funds increased.

In order to grow its customer base, DMBH began collaborating with the Bank in serving retail customers. For that purpose, the Bank applied for a license for provision of securities brokerage services. Having secured it, the Bank will be able to accept orders from individual customers and pass them on the DMBH.

Another factor that contributed to the decline in DMBH's market share was the market entry of a number of new brokerage entities, which over the past 12 months have taken over a total of 8.5% of the brokerage business in the equities market. Value of transactions DMBH settled over that period remained at a virtually unchanged level of over PLN 21 billion.

The number of futures and options contracts settled via DMBH increased by 190% to exceed 152 000 in 1H 2007.

Also, as at 30 June 2007, DMBH acted as the Market Maker for 42 companies, which represents 14% of all the companies listed on the WSE. It performed the same function for the WIG20 index futures contracts and the Mw20 index units. Worth noting is that the companies DMBH serves as the Market Maker include foreign entities with parallel listings on their markets of origin. This subgroups of companies was joined in 1H 2007 by ORCO Property Group.

On the MTS-CTO, DMBH acted as the Organiser for the CitiBond US Dollar Mixed Investment Fund investment certificates.

In May 2007 ZT Kruszwica S.A. new issue shares were floated on the WSE, with DMBH acting as the intermediary in the process of their admission to regulated trading. The issue was valued at PLN 277 million.

In June 2007 DMBH was involved in a share issue valued at PLN 652 million for ORCO Property Group. In value terms, that issue represented 5% of the equity IPOs floated on the WSE in 1H 2007.

The share of DMBH in the initial and the secondary public offerings (IPOs and SPOs) in 1H 2007 exceeded 6%.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company equity	Total assets 30.06.2007	Equity 30.06.2007	1H 2007 net profit/loss
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	786 917	92 135	11 077

** individual unit data, unaudited in the course of the year*

3.5 Leasing

The Group provides leasing services through Handlowy-Leasing Sp. z o.o., its wholly-owned subsidiary. Within the framework of the newly implemented Product and Credit Strategy, which addresses itself to current and potential clients of the Bank, the Company achieved a 144% growth in NAV of assets in leasing, compared to a year earlier equivalent period, as it closed agreements totalling PLN 397 million.

Compared to the equivalent period of a year earlier, the strongest growth in the assets leased in 1H 2007 was exhibited by the industrial machinery and plant segment, with growth of 311%; in 1H 2007, the leasing contracts encompassed machinery totalled PLN 127.5 million while in 1H 2006 this was PLN 31 million. A positive growth trend had been maintained in the vehicle lease financing segment; NAV of assets leased in 1H 2007 stood at PLN 268 million while in 1H 2006 this was PLN 128 million, representing growth of 110%. Total NAV of the leasing portfolio posted in the Company balance sheet as at 30 June 2007 stood at PLN 845.3 million compared to PLN 688.2 million, as at 30 June 2006.

In 1H 2007, the Company focused its efforts on systematising and expansion of its new distribution channels. As a priority, it had sought to increase cross-selling with the Bank and to develop cooperation with selected suppliers. The Company participated in various trade fairs organised by its target sectors. It co-organised meetings between suppliers and their most important clients, and participated in a number of events in the transport sector and the machinery sector, including construction machinery, machinery for metalworking and woodworking, and for manufacturing of plastic products.

Together with the Bank, the Company was involved in a number of campaigns aimed at acquisition of new clients and increasing the quality of service offered to existing clients, such as the Friends of Success campaign organised with participation of Lewiatan (employers' association) and Microsoft.

The Company has sought to increase recognition of the Handlowy-Leasing brand in its selected market segments, which it has supported with relevant strategic actions. Ultimately, the Company aims at achieving a marked increase of its share in the leasing services market.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company equity** %	Total assets 30.06.2007	Equity 30.06.2007	1H 2007 net profit/loss PLN '000
Handlowy-Leasing Sp. z.o.o.	Warsaw	100.00	876 860	203 740	3 771

** individual unit data, unaudited in the course of the year*
*** direct and indirect participation*

4. Retail Banking

4.1 Credit Cards

As at 30 June 2007, the number of issued credit cards reached nearly 730 000, which represented an increase by 19% compared to the status as at 30 June 2006. The number of issued Citibank-BP cards at the end of that period reached over 134 000 (including primary and supplementary cards). Thus, the Citibank-BP card strengthened its position of the best partner card on the Polish market.

In the course of 1H 2007, the Bank undertook a number of actions aimed at increasing the number and the value of transactions executed with credit cards. The Bank remains the market leader in terms of value of processed transactions and balance of customer debt. Citibank Credit Cards remain the most frequently used cards on the market.

In March the Bank launched a combined CitiFinancial loan and Citibank Credit Card product, thus expanding its target credit card market to include the clients of CitiFinancial. Since April personal accounts have been also marketed through the Credit Cards Division: by the end of June 2007 credit card holders have opened 2 572 new accounts.

In May of this year 10 years have passed since the Bank began offering the Citibank Credit Card, the pioneering credit card product on the Polish market. At the same time this constituted the first 10 years of presence of credit cards in Poland. In conjunction with that round anniversary, the Bank decided to honour 14 000 of its clients who were the first to have a Citibank Credit Card issued in 1997 (the so-called “Founder Members”).

Also in May the Bank launched a new offer addressed to holders of the Citibank Credit Cards: the Citibank Credit Card Proxy. Within that offer, the clients can award a user special additional rights for handling the primary card. With that offer, the functionality of a supplementary card is substantially expanded and made nearly equivalent to the functionality of the primary card. A solution such as that is particularly useful in situations where the main user is a holder of a supplementary card.

In June 2007, the Bank expanded its product offer to include two new partner cards: Citibank-LOT and Citibank-Plus. With issuance of these two new cards, the Bank entered a new phase in development of the credit card business.

The Citibank-LOT Credit Card was issued in collaboration with LOT Polish Airlines. The card combines the credit card functionality with the benefits accruing from participation in the Miles&More loyalty program. Co-operation with LOT Polish Airlines, which serve over 4 million passengers a year, will contribute to further rapid development of Citibank’s card portfolio, particularly in the more affluent clients segment.

The Citibank-Plus Credit Card combines the credit card functionality with certain additional benefits prepared with the Polkomtel S.A. clients in mind. Each transaction effected with the Citibank-Plus Credit Card earns the client points with the 5 Plus Program, which can then be swapped into attractive prizes. The Citibank-Plus card offer will be addressed directly to the 4 million individual clients within the Polkomtel S.A. customers base, via the Credit Card Telemarketing Division office. The first mailing of the offer made to 20 000 clients of the Plus mobile network took place in June 2007.

In 1H 2007, the student credit card product continued to meet with unabating interest on university campuses throughout Poland, with over 6 000 students now holding the Citibank Credit Card in their wallets.

4.2 Retail Banking

As at the end of the 1H 2007 the Bank’s share in the retail loans market excluding mortgage loans increased to 5% (from 4.9% as at the end of 2006), however, taking into account mortgage loans, the Bank’s share in the loans granted to individuals decreased slightly to 2.2% as compared to 2.3% as at the end of the preceding year. Considering the retail deposit taking market the Bank’s share as at the end of the 1H 2007 remained almost unchanged comparing to the end of 2006 and amounted to 2%.

4.2.1 Bank Accounts

The Bank continued the intensive acquisition of personal accounts, with focus on the high net worth individuals and the medium-wealth consumers segment, with the resultant total increase of 13% (year-on-year) in both the segments. A particularly strong growth occurred in the Gold segment, in which total the number of customers rose by 20% over the same period.

The launch of the Citibank Savings Account in Q2 2007 contributed to substantial acquisition of new customers and to growth of the Bank’s deposit base. High interest was offered on new funds deposited to these accounts (4.5%, the highest interest on offer on the market at the account launch).

Another action aimed at growing the deposit base, the launch of the Citibank Savings Account, was the continued implementation of the cross-selling approach. Particularly advantageous for the customers was the Investment Portfolio offer in combination with the uniquely high interest on three-month PLN deposits of 11% p.a. The cross-selling offers enabled the Bank to further expand its deposit base in 1H 2007, under conditions of mounting market competition.

4.2.2 Credit Products

In 1H 2007, the Bank took actions aimed at harmonizing the credit product offer addressed to retail customers, which, among others, involved certain further changes to the Citibank Loan Pricing Table. The Bank continued to stimulated uptake of the Citibank Loan through cross-selling to the credit card and personal account holders.

From 19 February to the end of Q2 2007, loan sales were supported through a media campaign with the message: Money available at Citibank Handlowy ("Udostępniamy pieniądze w Citibank Handlowy").

In June 2007, the Bank introduced new longer repayment periods for its Citibank Loan product. Previously, 60 months was the longest available lending period. Changes in the product made possible granting of loans for periods of 72 and 84 months. The longer lending periods can be offered to customers meeting predetermined borrowing capacity criteria.

In April 2007, the Bank launched a new product defined as the Credit Line Secured on Investment Portfolio. The product is primarily addressed to the CitiGold customers, who are now able to finance their additional funding needs with the Credit Line, without the need of cashing their investment portfolios. Also, in response to customer expectations, the Bank reduced interest and commissions charged on that product.

The Bank continued to promote its Citibank Credit Line by offering waiver of the annual fee in the first year of its use and decided to extend this promotion until the end of September 2007. This campaign contributed to a substantial growth in sales of the Citibank Credit Line product as compared to the performance in the previous months of the year.

In 1H 2007, many new solutions were introduced in the mortgage lending area, all with the aim of enhancing the attractiveness of the mortgage product offer brought to the market in 2006. The most significant of those measures were: the possibility of taking out a loans for purchase of a housing unit in three major currencies of PLN, EUR and CHF; introduction of some basic changes to the structure of the mortgage loan, including increased Bank exposure against property refinancing; price structure changes; and upgrading of the loan sales and analysis processes.

4.2.3 Insurance and Investment Products

In 1H 2007, the division organised 19 subscriptions for structured bonds denominated in several currencies (PLN, USD and EUR) issued by highly rated investment banks. Nine of these were structures tailored specifically for the Investment Centre clients. In addition to bond structures linked to Japanese or European market indices, the Bank enhanced its offer with structures linked to renewable energy indices, baskets of luxury goods sector and to embedded hedge funds.

Two new BlackRock Merrill Lynch funds were added to the offer of available foreign funds in June 2007: MLIIF New Energy Fund and MLIIF World Gold.

In March 2007, the Bank ran a telephone sales campaign for its new insurance product dedicated to holders of Citibank Credit Cards. The Safe Way ("Bezpieczna Droga") is an elective life insurance product, providing high benefit payments in the event of the insured person's injury or death in an accident, with added benefit in the case of a road traffic accident. In the second quarter of 2007, the Bank intensified sales of its Safe Way insurance product, as a result of which over 25% of the clients who were presented with the offer took out that insurance policy.

Since 1 February, the choice of funds available under the Investment Portfolio and the Life Insurance Linked Investment Program was expanded through addition of three new funds: ING Selective Subfund Plus, ING Construction and Real Estate Subfund Plus and DWS Top 50 Small and Medium Enterprises Plus. Since 25 May 2007, another new fund was added: Central Europe Financial Sector Subfund Plus. Currently, the Bank's customers allocating their insurance premiums into the Investment Portfolio have 32 investment funds to choose from.

4.2.4 Internet and other remote service channels

In 1H 2007, the Bank continued to popularize its Citibank Online (CBOL) internet platform and registered growth in its usage. The number of users who accessed the platform at least once rose to over 522 000, which corresponds to a 32% growth compared to the end of the end of 1H 2006. The number of transactions effected via Citibank Online constituted over 83% of total financial transactions initiated by the individual customers of the Customer Bank.

The Bank actively promoted its Online Account Statement ("Wyciąg Online") service registering the resultant stable growth in the number of its users, which has generated considerable savings. Online Account Statement is the electronic version of the account statements from the Citibank Personal Account and the Citibank Credit Card products, which the customers can choose instead of the paper based account statement. As at 30 June 2007, the number of customers using that service exceeded 96 000, which represents more than twofold (123%) growth on 1H 2006.

At the end of June 2007, the number of users of the CitiAlerts service, which involves sending of current information on the Citibank Credit Card and Citibank Personal Account in the form of an e-mail or an SMS message, reached over 87 000 and rose by 31% compared to the number of the CitiAlerts users at the end of June 2006.

4.3 SME Banking and CitiBusiness

In 1H 2007, the Bank continued with intensive development of its product offer to and active acquisition of the small and medium enterprise (SME) sector clients.

As a result of development of a dedicated SME sector sales teams, by the end of 1H 2007, the number of advisers increased threefold compared to equivalent period year earlier. Thus, the Bank was able to intensify its sales and marketing efforts and to ultimately achieve a close to 340% growth in acquisition of new clients compared to 1 H 2006.

In February 2007, the Bank launched Receivables Plus (Należności Plus), a new credit product that responds to the needs of the enterprise sector in the field of settlement of trade receivables.

Since March 2007, the Bank has offered a select group of CitiBusiness clients access to an internet information and transaction platform that enables real-time monitoring of the FX market prices. This service, quite novel on the Polish SME market, represents yet another element in the comprehensive offer tailored to the needs of firms that trade internationally. In June the Bank offered its first CitiBusiness clients access to FX options.

Through cooperation within the Bank Capital Group, beginning with April 2007, the CitiBusiness advisers have been able to present to their clients the leasing products offered by Handlowy-Leasing Sp. z o.o.

In June 2007, the Bank launched a new Loan Program dedicated to the SME segment, thus adjusting its loan products offer to the growing needs of this group of its clients.

4.4 CitiFinancial

Under the CitiFinancial brand the Bank has offered products for the middle and low income customer segment since the end of the year 2002. Its core product mix includes the Cash Loan, the Debt Consolidation Loan, the Mortgage Loan and most recently also the Citibank Credit Card. The products are channelled through own branch network as well as authorised outlets and the central process, in other words, via financial intermediaries and brokers.

In 1H 2007, CitiFinancial began to market a credit card, which – because of its high degree of responsiveness to the target group needs – met with high interest and its sales grew fivefold between January and March 2007 to stabilise at a high level in the second quarter of 2007.

Selected authorised CitiFinancial sales outlets expanded their offer to include settlement of utility bills. This supplementary service is executed with support of the Unikasa, a product offered by Transactional Banking Division within the Corporate and Investment Banking Segment. At the same time, a new IT system supporting the sales process was rolled out in the same outlets.

In 1H 2007, CitiFinancial also developed its seasonal loan product, launched at the beginning of the year, which creates the possibility for drawing loans with minimum documentation required, in fact limited to the personal ID card.

In April 2007, the Bank launched a new and attractive promotional offer of the CitiFinancial Cash Loan. All customers taking advantage of this loan in the minimum net amount of PLN 10 000 within the promotion validity period had the loan origination fee waived. The campaign was provided with strong media support, including the press (until 11 June 2007) and the radio and television (starting from 11 June 2007), and was very popular with the customers.

In June 2007, in parallel to commencement of its television campaign supporting sales of the CitiFinancial Cash Loan, the Bank also launched its CitiFinancial dedicated call centre project. The toll-free number is served by a team of professional advisers on 24 hours a day and 7 days a week basis. By calling the toll-free number, customers can obtain information on the product offer and submit a loan application.

Additionally, at the end of 1H 2007, a customer relationship management system (CRM) was implemented in the CitiFinancial branch network and its authorised outlets, one that has been in use by the Bank's other organisational units. The purpose for implementing the CRM system in the CitiFinancial outlets is to increase effectiveness of marketing campaigns in this specific distribution channel.

5. Branch Network

In 1H 2007, the Bank continued restructuring its branch network with the aim of optimising it in terms of cost and accessibility to retail customers and corporate clients. The Bank's network (including CitiFinancial) did not change in size compared to the status as at the end of 2006, and as at 30 June 2007 consisted of 236 outlets, including:

- 111 CitiFinancial outlets (99 branches and 12 agencies – partner outlets operating under the CitiFinancial logo);
- 86 Retail Bank branches, including 1 Investment Centre, 13 outlets dedicated to CitiGold Wealth Management customers and 72 multifunctional outlets. 82 of the retail branches also serve corporate clients;
- 39 Corporate Bank branches and sub-branches, of which 30 also serve retail customers.

Though compared to the status as at the end of 2006 the number of outlets remained unchanged, in 1H 2007 many organisational and functional change were introduced under the branch network optimisation scheme in a number of outlets. The most significant of these included:

- 2 retail outlets were moved to Corporate Bank locations:
  - CitiGold branch in Poznań from ul. Garbary 57 to Pl. Wolności 4;
  - CitiBanking branch in Bielsko-Biała from Pl. Ratuszowy 4 to Pl. Ratuszowy 5;
- CitiBanking branch in Poznań at ul. Św. Marcina 46/50 was expanded and reopened; its functionalities were also increased to include complete service of CitiGold clients;
- A branch in Warsaw at ul. Ostrobramska 75A was expanded to include a CitiGold zone; thus becoming the Bank's first outlet in this part of the city to provide complete service of CitiGold clients;
- Location at ul. Jana Pawła II 24 in Warsaw was shut down due to reasons beyond the control of the Bank; continuity of service to CitiGold clients by advisers of that branch was ensured through a temporary location.

To sum up, corporate clients are currently served through 121 while retail customers through 116 branches, and CitiFinancial customers through 111 outlets.

With the view of intensifying its relationships with the corporates using the Citi at Work Comprehensive Financial Programme, the Bank continued installation of ATMs and Information Points (MiniBranches) in the client company premises. The installations are executed in cooperation with eCard S.A. As at 30 June 2007, 4 such service points operated within the Bank's network.

6. Changes in IT

The objective of IT development is to provide optimal processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the Bank's regulatory environment.

In 1H 2007, the following solutions influenced the development of a leading-edge product range, improvement of its quality and efficiency, and reduction of its cost were introduced:

- Implementation of new Flexcube functionalities in the fields of trade finance operations, lending and finance. Additionally, automated IBAN format control for outbound transactions and consolidation of the client's funds. The new software solution release contributed in a material way to upgrading customer service quality and limited the transaction processing risk;
- Implementation of the EBS system supporting FX transaction processing with the Treasury Division clients; enabling reduction of dealer fee and commission costs;
- Implementation the CallManager Treasury system, for telephone based management of relationships with the clients of the Treasury Division;
- Enabling the CitiTreasury Online Trading system for marketing of Treasury Division products to retail customers and the CitiBusiness sector clients;
- Completion of the process of migrating the CitiDocs application environments (a document scanning and electronic flow system) started in 2006. The new version increases a number of existing functions and improves system security;
- Installation of a new technology in the form of internet kiosks for the Bank's customers. The solution is a response to the customers' expectation for further build-out of channels of access to products and services. Additionally, the internet kiosks provide the customers with an opportunity for direct participation in an electronic survey in which they can assess the Bank's services and products;
- Addition to the IVR automated teller system of the mobile number recognition functionality for incoming calls to Citiphone; to improve customer service quality and speed;
- Automation of the insurance product fee collection process;
- Design and implementation of a new scheme for processing transactions on the PLL LOT S.A. and Polkomtel S.A. partner payment cards.

7. Equity investments

The capital exposures of the Bank are classified as part of its strategic and divestment portfolios. In 1H 2007, the Bank continued its previously chosen capital investment policy. In managing the strategic portfolio it sough to maximise profits in the long term; grow the market share; stimulate development of cooperation with the Bank; and to expand of the Group's offer. In managing its divestment portfolio the Bank aimed to optimise financial result on the transactions and to minimise the risk inherent in such transactions.

7.1 Strategic Portfolio

The Bank's strategic holdings include entities operating in the financial sector, whose performance has an impact on the result on banking operations of the Group. This approach has helped the Bank to expand its product offer, increase its prestige and competitive advantage in the financial services market in Poland, e.g. Handlowy-Leasing Sp. z o.o., Dom Maklerski Banku Handlowego S.A. Its strategic companies also include infrastructure providers operating for the benefit of the financial sector. In these the Bank does not hold controlling interests, yet they are of strategic importance for it in view of the operations they perform, e.g. the Warsaw Stock Exchange, MTS-CeTO, the National Clearing House or the Credit Information Bureau.

The Bank intends to retain its strategic holdings in the infrastructure providing entities and take an active role in outlining the strategic directions of their development while exercising its right of vote. Its overriding objective in the exercise of its corporate governance prerogatives over these companies is to ensure their stable development and continuance of their present operations, which the participants of the financial market, including the Bank, rely on.

7.2 Divestment Portfolio

The holdings deemed 'for sale' include entities in which the Bank's exposure is not strategic. That portfolio includes entities held directly and indirectly (e.g. Lubelska Fabryka Maszyn Rolniczych S.A., Pol-Mot Holding S.A., NFI Magna Polonia S.A.), and special purpose investment companies used by the Bank for execution of capital transactions (Handlowy Investments S.A., Handlowy Investments II S.a.r.l.). Some of these holdings are restructured exposures, which originate from debt-to-equity swap transactions.

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

Following the strategic assumptions during the 1H 2007 several sales transactions has been completed, among the others Stalexport shares of total nominal value of PLN 3,285,738 (1,04% share in capital), Mastercard Incorporation holding of total nominal value of USD 757,821.46 (0.03% share in capital) and sales of NFI Empik Media & Fashion S.A. holding by Handlowy Investments S.A. of total nominal value of PLN 232,082.50 (2,27% share in capital).

8. Other Information about the Bank

8.1 Rating

The Bank has a full rating of Moody's Investors Service international rating agency.

Since January 2003 Moody's has maintained an A2 rating for long-term currency deposits (investment grade 6 on a 21-point rating scale) and Prime-1 for short-term currency deposits (grade 1 on a 4-point rating scale). The Bank's ratings are at the highest available to entities domiciled in Poland.

Additionally, on 26 February 2007 the agency notified the Bank of its decision to upgrade its financial strength rating of the Bank from D+ to C-. This rating change is a consequence of introduction of a new methodology for assessment of financial strength of banks by Moody's, but equally reflects assessment of the changes taking place in the Bank.

Moreover, on 3 March 2007 the agency notified the Bank of its decision to grant it the Aa2 rating (3rd from the top) for long-term deposits in PLN and the Prime-1 for short-term deposit in PLN. However, on 11 April 2007 the same agency informed the Bank of a change in the rating of its long-term deposits in PLN from Aa2 to Aa3, which in this case was again caused by a change in the methodology for assessment of banks in this respect. To sum up, as at 30 June 2007 the Bank had the following ratings awarded by Moody's:

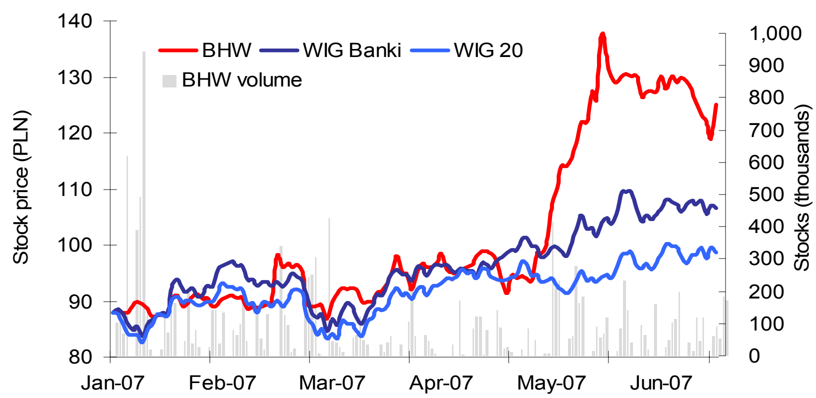
Rating for long-term deposits in the domestic currency	Aa3
Rating for long-term deposits in foreign currencies	A2
Rating for short-term deposits in the domestic currency	Prime-1
Rating for short-term deposits in foreign currencies	Prime-1

Financial condition	C-

8.2 The Bank's Performance on the Warsaw Stock Exchange

In 1H 2007, the price of the Bank shares on the Warsaw Stock Exchange (WSE) rose from PLN 87,9 (2 January 2007) to PLN 125.0 (29 June 2007), by PLN 37.1 or 42.2%. A definite raise was in evidence in Q2 2007, when starting from 10 May the share price systematically climbed to reach by 28 May the record high of PLN 137.5, after which the price levelled of in the PLN 125-130 per share band. This above-average share price gain was primarily driven by the positive assessment the Bank received from the market at publication on 9 May 2007 of the Interim Consolidated Financial Statements of the Capital Group in Respect of Q1 2007.

BHW stock price and volumes
WIG Bank & WIG20 indexes re-based



8.3 Interest Rates

Information on the average interest rate used by the Bank for deposits and loans in 1H 2007 is included in explanatory notes to the Financial Statements.

8.4 Awards and Honours

In 1H 2007, the Bank received the following awards and honours:

- Citi Handlowy won in ranking of the **best internet banks** organised by **Global Finance**, independent international finance magazine. The Bank proved unrivalled in terms of internet offer addressed to corporates and institutional clients in Poland in 2006. The ranking assessed the banks in reference to such criteria as: effectiveness of the internet banking client acquisition and service strategy, the actual usage of the offer, the user volume growth, the product range available on the Internet, tangible benefits accruing to the client, functionality and design of the internet service and effectiveness of the security protection measures used by the bank;
- **Euromoney** and **Project Finance Magazine**, a prestigious City financial publisher of international circulation, awarded to Citi Handlowy with the title of the **European Power Deal of the Year 2006** for the best power sector transaction in Europe, for a financing to BOT Elektrownia Bełchatów (PLN 2.8 billion specified term loan, being the biggest transaction of its kind in Poland in that sector);
- Citi Handlowy received the top prize of the **Polish Business Club – The Firm of the Year 2006** for its comprehensive and tailored offer for the SME sector;

- On 22 February 2007 Citi Handlowy received for the second consecutive time the top prize for the best organised employee volunteer program, this in the Colours of Volunteer Work ("Barwy Wolontariatu") Competition organised by the Volunteer Centre under the auspices of the Speaker of the Lower House of the Polish Parliament, which reaffirms the Bank's position of leadership among the bank operating in Poland in following the principles of responsible business.
- The UNIKASA purchase payment processing network of Citi Handlowy was singled out for the prestigious **Europrodukt** title. This award is granted to providers of services to SMEs, with diversified high quality offers, capable of providing comprehensive service to its clients in all the fields of their operation. The competition seeks to promote brands, goods and services worthy of singling out as the best on the market. The competition has been held since 2000 by Polskie Towarzystwo Handlowe Sp. z o.o. under the patronage of, among others: the Ministry of Economy, Polish Enterprise Development Agency, the Ministry of National Education, the Chancery of the President of the Council of Ministers, the TVP Polish public television broadcaster and a number of national circulation and trade press titles.
- Citi Handlowy was the winner of the **MARKET LEADER 2007** Title in the **EURO LEADER** Promotional Competition in the Best Service in Poland category for its Reserved Account and MicroPayments. additionally, the Reserved Account service received a special mention and the title of **EURO LEADER 2007**. The competition identifies, singles out and promotes firms, services and products that are innovative in technical, technological, organisational and quality terms. The award constitutes a guarantee of the highest quality of service and a proof of the provider's high market standing. This was the 8th edition of the competition organised by InterRES International Fair Sp. z o.o. Its winners are chosen by comparative method from amongst the entered entities, this by a panel of independent experts.
- Citi Handlowy's campaign promoting **Online Trading for corporate clients** won recognition in the **Golden Arrow** competition organised by the **Direct Marketing Association** and **VFP Communications Ltd.**, the publisher of the Media & Marketing Polska weekly magazine. The jury assessed highly creativity of the attractive gift and information packs mailed to the clients, which helped the Bank develop effective links with potential clients. The jury also took into account the unique effectiveness of that campaign: nearly 70% of the pack recipients expressed readiness to meet with a representative of the Bank.

8.5 Engagement in Cultural Patronage and Social Responsibility Projects

Patronage of culture and the arts and cooperation with the National Philharmonic brought to the Bank at the end of 1H 2007 for the subsequent time the title of the Patron of the Year 2007. In February 2007, the Bank sponsored a philharmonic hall concert of the Chinese megastar pianist Lang Lang. Citi Handlowy sponsored the single concert given in Poland on 3 May 2007 by the New York Philharmonic, which inaugurated the orchestra's European tour. Also in May, the Bank acted as a strategic partner of the Lewiatan Awards Gala 2007, which took place on 16 May 2007 in the National Philharmonic Hall in Warsaw. The Gala Awards Ceremony was preceded with a debate on the place national interests in the European Union. On 5 June 2007, Citi Handlowy took part in a meeting organised by the Harvard Business Review and the Polish Business Roundtable Club, which concentrated on the topic of "High performance leadership".

Furthermore, the Kronenberg Foundation operating on the Bank's behalf supports Poland's major nationwide and local educational and local development projects, with particular consideration of economic education and cultural heritage.

The most important activities conducted by the Foundation in 1H 2007 included:

- My Finances ("Moje Finanse") – the largest Polish economic education program for pupils of higher secondary level schools. It is conducted in cooperation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People. In the school year 2006-2007, more than 2 500 teachers and 144 000 pupils of 2 000 schools from around Poland participated in "My Finances". Some workshops and training sessions were conducted by a group of 100 volunteers of Citi Handlowy. The classes with their participation took place both at schools as well as in the selected branches of the Bank, where the pupils played the roles of bankers and customers. Within the framework of his program, in collaboration with the Gazeta Wyborcza daily, the "My Finances – from class to teller window" competition was organised, with the aim of assisting the students in acquiring skills in making reasonable financial decisions. 58 000 pupils of lower and higher secondary schools participated in this competition;

- Employee Volunteerism Program in Citi Handlowy – the purpose of this program is to involve the Bank employees in contributing their knowledge, experience and abilities to social projects. In 1H 2007, nearly 200 employees of the Bank throughout Poland participated in the program. One innovative idea implemented within the scope of the volunteer program was the inclusion of social responsibility projects in the staff integration and training retreats. In 1H 2007, in that way 672 Bank employees took part in local community projects in nine locations;
- Gieysztor Award – this most prestigious award for services for protection of the Polish cultural heritage is granted annually to institutions and individuals for their activity aimed at protection the Polish cultural heritage. It its 8th Edition the Professor Aleksander Gieysztor Award went to Krzysztof Lech Czyżewski, the President of the BORDERLAND Foundations and the Director of the Borderland of the Arts, Cultures and Nations Centre in Sejny;
- The 13th Edition of the Competition for the Award of Bank Handlowy w Warszawie S.A. – the most prestigious competition addressed to research scientists economy and finance in Poland. The Jury chose the competition winner in July 2007, who will be announced and honoured in a special awards ceremony combined with an economic conference planned for late October 2007;
- The 3rd Edition of the Micro-entrepreneur of the Year (2007) Competition was announced – its basic concept is to stimulate establishment of small businesses, but also to present and promote the best of them as effective business models. The competition will be adjudicated in November 2007;
- The 9th Edition of the Wokulski Competition was announced – competition for the best business plan for students intending to take up business activity. The competition results were announced in July 2007. From amongst the many submitted projects, the Jury chose 22 business plans to finally select the winning one. The winner of the 9th Edition of the Wokulski Competition was Maciej Wilk, a student of the Warsaw University and the author of the Cyberlife.pl Project, a people meeting and matching site in the internet space;
- Banks in Action ("Banki w Akcji") program was also launched – an educational program addressed to young people. Its purpose is to present to young people the specific features of work in the banking sector. Based on active teaching methods, it offers the young people the opportunity of playing the roles of bankers and competing in the "Banks in Action" simulation game. The sessions are conducted in English and with active involvement of volunteers from the Bank. In the school year 2007-2008, the program is expected to engage 5 000 pupils;
- Traces of the Past ("Ślady Przeszłości") – the purpose of this program is to increase among young people the interest in their cultural heritage. The pupils search for interesting historic sites in their communities, learn their history and undertake to care for them. They also conduct educational and promotional activities, owing to which the forgotten places once more become part of the tradition, a local landmark and a tourist attraction of the locality. To date, over 15 000 pupils participated in the program, which the Bank runs jointly with the Civic Education Centre;
- Subsidy Program – in 1H 2007, the Kronenberg Foundation granted 28 subsidies in a total amount of PLN 784 946 (EDUCATION: 17 subsidies, PLN 401 161; LOCAL DEVELOPMENT: 11 subsidies, PLN 383 785). The projects supported by the Foundation reached approximately 42 006 direct beneficiaries. These projects included, among others, the Anna Dymna's "Mimo Wszystko" Foundation – for awards in the Enchanted Song Festival, the Educational Entrepreneurship Foundation – for organisation of the Entrepreneurship, Finance and Management Competition addressed to students of economy or the Jewish Cultural Festival Society in Kraków – for supplementary funding of educational workshops within the framework of the 16th Festival;
- Development of Philanthropy – the Foundation takes active part in the activities of the Polish corporate foundations and other non-governmental organisations, for example, in the work of the Donors' Forum, which advocates for and acts as an experience sharing forum for major Polish institutional donors. The Foundation is also active in promoting philanthropy among businesses and corporations. In both these roles, membership and active participation in the work of the European Foundation Centre has been very helpful.

VI. Significant Risk Factors Relating to Operation of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Major Risk Factors and Threats to the Capital Group's Operating Environment

1.1 Economy

According to the macroeconomic forecasts developed by the Bank, the economic growth in Poland may slow down in the subsequent trimesters of the year 2007, driven by further acceleration in imports and waning of investment demand, as affected by disappearance of positive weather conditions. Despite the slowdown in GDP growth domestic demand is likely to remain high, which may steer the Monetary Policy Council to continue raising the interest rates.

One serious threat to Polish economy may come from the mounting labour market tensions, which can potentially drive further wage increases. Excessive increases in the labour costs can lead to perceptible acceleration in inflation ad the attendant monetary policy tightening. Additionally, this factor can reduce competitiveness of Polish enterprises in the global market.

Despite the favourable economic conditions, uncertainty as to the future condition of public finances remains. Economic slowdown can contribute to widening of public deficit, leading to volatility in pricing of assets by the financial markets.

Events on the international financial markets represent another important risk factor. Continued aversion to risk and sell-out of emerging market assets are the scenarios that can translate into increased volatility of the Polish currency and of other financial instruments.

1.2 Regulatory Risk

Any changes in economic policy and the legal system may significantly affect the financial situation of the Bank. Of particular relevance here is the regulation of the banking sector, which takes the form of regulations issued by the Finance Minister, resolutions of the Management Board of the National Bank of Poland (NBP), orders issued by the President of NBP and resolutions of the Commission for Banking Supervision (KBN).

The most relevant of these regulations cover:

- acceptable concentration of loans and total receivables (Banking Law Act);
- maximum limit of equity that may be invested in the capital market (Banking Law Act);
- solvency, liquidity and credit risk standards (resolutions of KNB);
- mandatory reserves, establishment and transfer (NBP Act, Banking Law Act, resolutions of KNB and resolutions of the NBP Management Board);
- taxes and similar charges;
- Act Amending the Civil Code Act and Certain Other Acts of 7 July 2005 limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans;
- restrictions in granting mortgage-secured foreign currency loans arising from Recommendation S of the Commission for Banking Supervision;
- Competition and Consumer Protection Act of 16 February 2007;
- Countering Unfair Market Practices Act of 14 June 2007 (bill currently in the legislative process).

Furthermore, 2007 will is the year in which all the investment firms and lending institutions conducting investing activities in the European Union market will need to adjust their activities to the requirements set forth in the Commission Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID Directive) and in its executive legislation, such as the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006). Effectively, the need for compliance with the cited regulations will also depend on passage on the territory of Poland of regulations transposing the European regulations. This specifically relates to the anticipated amendments to the

Trading in Financial Instruments Act and to ordinances of the Finance Minister issued on the basis of the of the aforementioned. However, in spite of elapse of the January 2007 deadline by which the EU Member States were to adopt the relevant regulations, the work on these in Poland is yet to emerge from the drafting stage. Thus, the process of operational adjustment in the institutions to which the MiFID Directive applies has so far proceeded with difficulties.

Additionally, the Bank will adjust its operations to the legal requirements arising from the change in the regulations concerning the implementation of the New Capital Accord. The key changes – as compared to the currently effective regulations – involve the newly added operating risk related minimum regulatory capital requirements, the barring of application of the more accurate credit risk related capital requirement calculation method. Two new scopes of activities named second and third systemic pillars were added too. Under the Pillar II measures , banks now need to develop own internal capital assessment processes and set their capital split targets, which are aligned with their unique risk profiles and with the supervisory environment. Of significance here is inclusion in that process of the risk previously not accounted for within the Pillar I minimum regulatory capital requirement (e.g. interest rate risk in the bank portfolio, liquidity risk, etc.). The process is the subject to analysis and supervisory review apart from corporate governance review, risks management process, compliance regulations and internal control system. Under the Pillar III measures (Market Discipline) institutions are required to disclose to other market members information on their risk profile, risk management measures and capital adequacy. The change of law regulations related to the implementation of the New Capital Accord will result in the change of capital requirements and capital adequacy ratio.

1.3 Competition within the Banking Sector

Competition between banks in various segments of the Polish banking sector seems to be strong. Companies will increasingly utilize financial alternatives to bank loans, such as issuance of short-term debt and of equity, leasing and factoring, and will fund their operations from earnings. The pressure by companies in good financial condition towards reduction of credit and non-credit margins will not come to an end in the near term.

After Poland's accession to the European Union, foreign banks have shown growing interest in the Polish market of banking services. The banks from the European Economic Area can operate cross-border activities in Poland, i.e. without their actual presence here or via its branches. By mid-2007, the Commission for Banking Supervision received 168 notifications from the competent supervisory authorities of the Member States of the European Economic Area announcing the intention to undertake cross-border activity in the territory of the Republic of Poland by the lending institutions subjected to their supervision. In this period, also the Chief Inspectorate of Banking Supervision confirmed to the competent supervisory authorities of the Member States of the European Economic Area the reception of 17 notifications announcing the intention to undertake by the credit institutions subjected to their supervision cross-border activity in the territory of the Republic of Poland via a branch. For the time being, the operations of these banks are oriented mainly on servicing large enterprises and the wealthiest (private banking) customers in the consumer banking sector. It is possible that foreign banks may attempt conquering the retail market in the future. It is highly probable that the increasing foreign investments in the banking sector and the emerging unified European market of financial services will lead to greater competition in the market for banking services, also in activities such as FX transactions, settlements of foreign trade transactions and investment banking, depositing and investing assets of natural persons.

Despite the large number of institutions that have notified their intent to open operations in Poland, we do not expect any material changes in the structure of the banking sector. Those institutions that are really interested in the Polish market, and that deem it attractive, have already been developing their presence here for several years. As a result, banks operating in Poland offer products comparable with those distributed in other EU countries. The competitive struggle will focus on the quality of services and the efficiency and speed of customer service. Further consolidation within the banking sector is one factor that can potentially reduce competition.

Another risk factor is the offering of products which have so far been restricted to banks by non-bank entities, such as loan brokers or retailer chains, which process can affect lowering of margins in the banking sector in the longer term.

The Bank is well prepared to face European rivals, there is, however, a risk that the mounting banking sector competition could adversely affect its earnings.

2. Major Risk Factors Connected with the Capital Group of Bank Handlowy w Warszawie S.A. and its Operations

2.1 Liquidity Risk

As a typical feature of banking activity, the Bank experiences maturity mismatches between the loans and the funding of deposits. These can give rise to problems with current liquidity were there to be a build-up of large payments to customers. The management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Asset and Liability Committee, which defines the strategy that is implemented by the Treasury Division.

The key task of the Asset and Liability Committee is to manage the structure of the balance sheet in order to increase its profitability, to determine acceptable limits of financial risk for specific areas of operations, to define the pricing policy and to make decisions concerning the transfer pricing system used within the Bank.

Within the framework of liquidity management activities, the Asset and Liability Committee is responsible for the preparation and implementation of a unified policy towards liquidity risk. In addition, it approves annual liquidity plans, plans of funding of the Bank's assets and its liquidity limits as well as contingency action plans in the area of liquidity. It also determines threshold limits for particular sources of funding and carries out regular reviews of liquidity risk reports.

The Bank's deposit base is stable and diversified. In addition, the Bank has good access to interbank funding and adequate capital base. The level of liquidity risk is thus low.

2.2 Foreign Exchange Risk

The Bank performs foreign exchange operations both on behalf of its customers and its own account, and holds open foreign exchange positions within established limits. As a result, the Bank is exposed to exchange rate risk and there is no certainty that future movements in exchange rates will not have an adverse effect on the Bank's financial standing. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates with the Treasury Department, the unit managing the Bank's liquidity and its foreign exchange position. The market risk is moderate and the limit of value at risk (VaR) arising from open foreign exchange positions is established at below 1% of the Bank's equity.

2.3 Interest Rate Risk

Along with the other Polish banks, the Bank is exposed to a risk arising from mismatch in timing of changes in interest rates on its assets and the underlying liabilities. Interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. The management of interest rate risk is one of the functions of the Bank's Asset and Liability Committee, which determines the Bank's pricing policy in the context of interest rate risk. The present level of interest rate risk is moderate.

2.4 Credit Risk

Lending and guarantee business is inherently linked with the risk of payment delinquency (of both loan principal and interest) as with the risk that the asset represented by an outstanding loan or granted guarantee will prove impossible to recover. The Group monitors its risk assets on an ongoing basis and classifies and establishes provisions against them in accordance with the relevant regulations. The Bank Management Board is of the opinion that the current level of provisions is appropriate. As the possibility of change in the external environment that can have a negative impact on the financial condition of the Bank's customers always exists, there is no certainty if some future need for adequate provisioning against the existing asset portfolio may have an adverse effect on the Bank's financial condition or if the provisions and the collateral in place will prove sufficient to absorb the possible losses arising out of lending activity.

2.5 *Equity Investment Risk*

Equity investments fall into two basic categories: strategic and for sale. The strategic portfolio includes the Bank's shares in Polish financial institutions of strategic significance to the Bank due to their operations. The 'for sale' category exposures originate from debt-to-equity conversion operations performed in the past. Investments are held directly by the Bank or indirectly via its wholly-owned special purpose investment vehicles. In the case of some of the equity investments, their valuation is based on the assumption of ultimate identification of a strategic investor for the company in which the Bank is a shareholder. Therefore, maintenance of the high level of foreign direct investment may be of key importance for the valuation of these investments. Moreover, due to a number of macroeconomic effects, the conditions prevailing in the capital markets and other factors having an impact on activities of the companies in which the Bank is a shareholder may cause the selling price of the held shares to be lower than expected, or even lower than the value at which they are held on the Bank's books. The Bank has already made substantial write-offs related to impairment of its investments, thus bringing the risk of further decline in value of the Bank's investment portfolio to a low level.

2.6 Operating Risk

The Group defines operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

Following the publication of the Basel Committee's recommendations and the recommendations of the Commission for Banking Supervision, the Management Board enhanced qualitative and quantitative measurements of operating risk.

For a number of years now, the Group has employed various tools and methods in managing operating risk (including in particular self-assessment processes, checklists, limits and contingency plans). In response to publications of the respective Basel Committee recommendations and of the relevant recommendations by the Commission for Banking Supervision, the Group adjusted its operations by enhancing the qualitative and quantitative measurements of operating risk.

The basic rules of risk management and the distribution of roles and responsibilities between the respective levels of management within the Group are regulated in the Operating Risk Management Policy. The responsibility for ongoing monitoring of operating risk in the Bank rests with the Risk and the Control and Compliance System Committee. All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant Committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organisational units of the Group entities is the subject of inspections and assessments carried out by the internal audit.

The following categories of risk related losses are the subject of loss assessment:

- losses caused by human error on the part of the staff
- losses resulting from external fraud and/or theft
- losses resulting from failure of systems and/or technologies

- losses resulting from failure of processes and/or products.

In the Bank Management Board's opinion, the overall level of operating risk is assessed as moderate, and typical for the scale of the Group's operations.

2.7 Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund, the Bank is included in a mandatory deposit insurance scheme for personal deposits. The banks included in this scheme are required to make specific contributions to the Fund.

In the event of general deterioration of standing of the banking sector institutions or of bankruptcy or financial distress of one of the participating institutions, the Bank and other participants in the Bank Guarantee Fund may be required to make large payments to the Fund, in proportion to the guaranteed deposit insurance fund calculated in respect of a given institution or institutions. This could adversely affect the Bank's earnings.

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

1. The Group's General Development Objectives

The Bank's objective is to systematically increase shareholder value by ensuring appropriate return on equity and increasing the Bank's share in its key market segments.

In 1H 2007, the Bank increased its Consumer Bank and SME customer base in a material way. In the coming years, the Bank intends to continue active acquisition of new customers – both consumer and corporate – in all market segments, with a particular emphasis on consumer and SME banking. The Bank is going to follow the "client first" strategy and improve customer satisfaction through streamlining its operational processes and procedures and through regular client feedback review. The Bank plans to leverage further the synergies between corporate and retail banking, both in the area of products and of shared distribution channels. The strategy of generating product synergies provides for the launch of retail securities brokerage services in cooperation with the Consumer Bank; the provision of an offer of Treasury products addressed specifically to small enterprises (CitiBusiness), a segment served by retail banking; and the enabling of monthly loan payments through the Unikasa payment network.

In the medium term, the Bank aspires to achieve double digit market share (measured as the share in the result on banking activity of the entire banking sector). In 1H 2007, its share was approximately 6%. The market share growth will be attained as the Bank maintains its position of leadership in corporate banking and increases its market share in retail banking services. The planned acquisition of new clients is going to be achieved as the Bank continues to improve the efficiency of its distribution channels and launches new products. The Bank will continue prospecting for the possible cost savings and maintain strict cost discipline while increasing its expenditures in marketing that are intended to support acquisition of new clients and to increase sales of the respective banking products.

1.1 Corporate Banking

The Bank's potential corporate banking customers include all of the companies operating in Poland, which the exception of those that belong to the sectors permanently excluded from the Bank's target markets due to the Bank's policy or to their blacklisting, a consequence of them being sanctioned by either international organizations or the US government.

The Bank's position is particularly strong in servicing international corporations and the largest Polish companies. The Bank also holds a leading position in handling of money market and foreign exchange transactions. Its goal is to retain its present market share in all these segments. One significant advantage it brings to bear as it develops relationships with the largest customers is that it forms part of Citigroup. The

Bank is in a position to offer to these customers unique services that blend its knowledge of the domestic business environment with the international experience and global coverage of Citigroup.

In order to ensure continued revenue and asset growth of its corporate banking business, the Bank has provided for implementation of a number of growth stimulating initiatives. These, among others, include financing of the investments supported through EU grant funds, a multi-purpose credit line, development of distribution channels for leasing services, real estate leasing and development of the range of factoring products.

In its corporate banking activity, the Bank plans increased revenue coming from the small and medium enterprise segment (SMEs). The Bank intends to acquire new customers on this market and to deepen the relationships with its existing customers. The Bank is going to actively finance SMEs and expand the offer dedicated to the SME sector clients as well as increase the number of branches dedicated to serving this group of enterprises.

Most of the Bank's revenue will come from cash management, trade finance and treasury products and services. The solutions and innovations in these product groups will be the key determinants of the Bank's competitive advantage, particularly in its cooperation with the most demanding international and leading Polish companies. The Bank will also aim to exploit in a growing measure the opportunities of selling the products previously offered exclusively to the largest corporates in the domestic SME segment, such as e.g. the Treasury Division's OnLine Trading, an internet trading platform enabling execution of FX transactions in real time, which helped the Bank to acquire many clients and to increase in a significant way the volume of client initiated FX transactions.

1.2 Brokerage

In terms of revenue generation, institutional investors are for DMBH the dominant customer group. Accordingly, DMBH has sought to maintain its market share in that customer segment while it continues to acquire new individual customers. DMBH is ensured cost-efficient access to retail customers through ever closer cooperation with the Consumer Bank. The primary market activity will also contribute to the strength of the Bank's brokerage business.

1.3 Leasing

Handlowy-Leasing Sp. z o.o. plans to grow its business dynamically in 2007. Its development effort will encompass the following:

- increased cross-selling to the Bank's clients;
- continuation of the positive trends in the sale of the products offered within the framework of product-oriented schemes, with special focus on growing the equipment segment; and
- growth in the small ticket leasing, a new segment in the company's business.

It will also concentrate its attention on strengthening and upgrading further its after-sale service.

1.4 Consumer Banking

Consumer banking services are universally perceived as the segment of banking activity with the highest medium term growth potential.

The Consumer Bank is interested in cooperation with all customer segments, This is reflected in its tailored product offers, which take into account the diverse needs of customer representing the respective market segments.

The Bank considers it of key importance to maintain its strong position in credit cards business, the market in which Citigroup is a world leader. As at 30 June 2007, the number of credit cards issued by the Bank reached 730,000 while the Bank held a leading position on that market in terms of both value of executed transactions and net indebtedness of its customers. The Bank intends to continue its campaigns commenced in 1H 2007 aimed at increasing the scale of transactions executed with credit cards, both in volume and value terms. Particular emphasis will be placed on acquisition of new customers as well as on expansion and continued improvement of the product range. The Bank intends that the Citibank Credit Cards remain the market's most frequently used payment cards.

Also in the area of Wealth Management services, the Bank intends to further strengthen its leading position on the segment of services addressed to wealthy individuals. One feature that differentiates the CitiGold Wealth Management service from other competitive offers is its broad portfolio of investment and insurance products offered in 'open product architecture'. In the course of the year, the Bank will continue building its position of leadership in the high net worth individuals segment through further product innovation and build out of its branch network.

The Bank will continue expanding its middle income customer group offer. In the near term, it also intends to continue capitalising on the effects of its Citibank Savings Account offer campaign, which the objectives of supporting acquisition of new customers and ensuring growth in the Bank's deposit base.

In response to the dynamic growth of retail banking market, the Bank plans to expand in 2007 the CitiFinancial network, its authorised partner (agency) outlets channel, to 22 and to increase the upper limit of the loan financing available to the customers of CitiFinancial to PLN 120,000. The undertaken network expansion will help the Bank to improve access to services for its customers and to grow sales. Major emphasis is being put on active selling of mortgage lending products.

1.5 Distribution Network

The Bank operates in the market under two brands: citi handlowy for distribution of consumer, corporate and investment banking products and citi financial for CitiFinancial's distribution channels. For the Bank, development of strong brand awareness among existing and prospective customers of particular segments is a top priority task.

The Bank serves its customers through a network of outlets, consultants and relationship managers, third party direct sales agents and remote distribution channels, such as Internet banking, a call centre, IVR (interactive automatic telephone service) and multi-functional ATMs.

The continuing process of streamlining of the branch network involves optimisation of available space, closure of the least profitable outlets and merger of corporate and retail outlets. In the course of the year, the functionality of all retail branches will be expanded to include the performance of simple operations for corporate clients while the functionality the corporate branches will be expanded to include serving of retail customers.

The utilization of the Bank's distribution network takes into account plans to increase the scope of activities of the Consumer Bank and the Corporate Bank, particularly in serving the SMEs sector and the synergies achievable between the Consumer Bank and the Commercial Bank. The priorities include increasing functionality and accessibility of remote distribution channels and continued enhancement of the qualifications of banking consultants, in particular those serving large entities that require more sophisticated financial products. In the case of the Consumer Bank, substantial emphasis will be placed on further growth of Internet usage (Citibank Online). As a target, Internet is to become for private individuals the basic transaction medium.

The high functionality and quality of access to the call centres via CitiPhone for private individuals and small businesses and via CitiService for large and medium-sized enterprises will be maintained.

2. Synergies

Wide-ranging experience and diverse operations provide the Bank with strong competitive leverage and allow it to offer its customers comprehensive solutions by taking advantage of the opportunities afforded by synergies between corporate and consumer banking, between banking and brokerage services, etc. The Bank is currently implementing an outlet consolidation project. Creation of a uniform branch network is going to increase accessibility of the services to all of the Bank's customers and clients.

Packages of deposit and loan products are offered to staff members of the largest corporate clients. A typical package includes personal current accounts (e.g. CitiKonto) together with a payroll support facility, credit cards and other credit products. In addition to pricing incentives, the Bank is prepared to conduct educational seminars in finance for employees.

The Bank will also continue to sell corporate products to its consumer banking customers of the CitiGold sector. In particular, specialised treasury products, brokerage services and asset management facilities will be offered. All customer groups will continue to be offered investment products.

With the view of generating synergies, the Bank plans to offer brokerage services to retail customers, present a special offer of leasing services to micro-enterprises (CitiBusiness) and to continue expanding the product offer accessible for the CitiFinancial customers.

VIII. Corporate Governance

1. Good Corporate Practices and Principles of Management at the Bank

As per the Bank Management's representation adopted in the form of a resolution of 17 April 2007 and included in the Current Report No. 22/2006 of 22 June 2006, the Bank has undertaken to follow the corporate governance practices specified in the Best Practices in Public Companies 2005 paper.

The statement obtained a positive opinion of the Bank's Supervisory Board in the form of its resolution of 23 May 2007 and was subsequently approved by the General Meeting of Shareholders of 21 June 2007.

The Bank aspires to the position of the most respected financial services company in Poland, with a strong sense of business and social responsibility. Since 2003 the Bank has complied with the corporate governance rules adopted by the Warsaw Stock Exchange in the form of the Best Practices in Public Companies paper. The main purposes for adoption of the corporate governance rules as the standard in the Bank include building transparent relationships between all the entities involved in operation of the Company and ensuring proper and diligent management of the Company and its business as well as diligent and fair treatment of all its shareholders.

In order to ensure transparency of the Bank's operations, including in particular relationships and processes between statutory bodies of the Company, the following Best Practices have been introduced in the Bank.

1.1 Investor Relations

The Bank's information policy, the aim of which is to provide information to all persons and institutions that need information about the Company, includes as its integrated part the investment relations function that provides information to current and potential investors and capital market analysts. The Bank's information policy is implemented by investor relations, among others, through:

- Organizing regular meetings with investors and analysts in the form of briefings and conference calls, also in the Bank's headquarters, with participation the Management Board;
- Support from the Investment Relations Office at quarterly media press conferences, organized at publication of periodic reports;
- Publishing on the Bank's website current information about the Bank and its businesses, and all the current and periodical reports; the website facilitates contact with the Investor Relations team, which provides information about the Bank and its Capital Group;
- Enabling representatives of the media to participate in General Meetings.

1.2 Transparency

The Bank continually undertakes actions aimed at improving transparency in the Bank's organisation, its division of powers and functioning of its respective governing bodies, and their mutual relations. These include the following:

- The Bank has published its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005;
- One half of the Bank's Supervisory Board is composed of independent members, including the Chairman of the Board;
- Within the Bank's Supervisory Board functions the Audit Committee composed of two independent members, including the independent Chairman of the Committee;
- In compliance with the corporate governance rules, the value of remuneration of all the Management Board members is disclosed in the annual report. Remuneration of individual Management Board members reflects their scope of duties and accountability;
- All significant internal regulations as well as information and documents relating to the Company General Meetings are available at the Company's headquarters and via its website.

1.3 Minority Shareholders Protection

The Bank ensures adequate protection of the minority shareholders' rights, within the limits dictated by the Company's status and the associated primacy of the majority rule principle. In particular, in order to ensure equitable treatment of all shareholders, the Bank adheres, among others, to the following rules and practices:

- The General Meetings always take place in the Company's registered seat in Warsaw;
- In accordance with corporate practice, all important materials being prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to Shareholders no later than within 7 days of the date of the General Meeting, at the Company's seat and via the Bank's website;
- The General Meeting has stable set of regulations setting out detailed rules of procedure and adoption of resolutions;
- Members of the Management Board and Supervisory Board take part in the General Meeting in order to provide it with explanations and information about the Bank within the scope of their competencies;
- The General Meeting participants objecting to a resolution are offered an opportunity for brief presentation of the rationale of their objection. Moreover, each General Meeting participant can submit written statements to the meeting minutes.

2. Bank's Authorities and Other Corporate Governance Rules

In 1H 2007, no principles of management followed by the Bank were amended. These principles are presented in the relevant Note to the Bank's Financial Statements.

2.1 Changes in the Composition of the Bank Management Board and Supervisory Board in 1H 2007

2.1.1 Changes in the Composition of the Management Board in 1H 2007

Sławomir Sikora	President of the Bank Management Board
Sonia Wędrychowicz-Horbatowska	Vice-President of the Bank Management Board
Edward Wess	Vice-President of the Bank Management Board
Witold Zieliński	Vice-President of the Bank Management Board
Michał Mrożek	Vice-President of the Bank Management Board*
Lidia Jabłonowska-Luba	Member of the Bank Management Board

*) On 23 May 2007 the Supervisory Board appointed Mr. Michał H. Mrożek to the position of Vice-President of the Bank Management Board for the next 3-year term. Previously Mr. Michał Mrożek acted in the capacity of Member of the Bank Management Board.

2.1.2 Changes in the Composition of the Supervisory Board in 1H 2007

Stanisław Sołtysiński	Chairman of the Supervisory Board
Shirish Apte	Vice-Chairman of the Supervisory Board
Andrzej Olechowski	Vice-Chairman of the Supervisory Board
Susan Blaikie (formerly Dean)	Member of the Supervisory Board**
Sanjeeb Chaudhuri	Member of the Supervisory Board
Goran Collert	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Sabine S. Hansen	Member of the Supervisory Board from 20 March 2007
Rupert Hubbard	Member of the Supervisory Board until 20 March 2007
Stephen H. Long	Member of the Supervisory Board until 21 June 2007
Krzysztof L. Opolski	Member of the Supervisory Board
Aneta Polk (formerly Popławska)	Member of the Supervisory Board**
Michael Schlein	Member of the Supervisory Board from 21 June 2007
Wiesław Smulski	Member of the Supervisory Board

**) Members of the Supervisory Board appointed for the subsequent term of office by the General Meeting of 21 June 2007.

2.2 Rules Relating to Appointments and Discharges of the Management Board Members and the Powers of the Management Board Members

The Bank Management Board consists of five to nine members. Members of the Management Board are appointed by the Supervisory Board for 3-year terms of office. At least half of the Management Board membership need to be holders of Polish citizenship. Their mandates expire:

- on the day the General Meeting approves the Management Board's report on the Bank's operations and the financial statements for the last full financial year during which a member sat on the Management Board;
- upon the Management Board member's death;
- upon the discharge of the Management Board member; or
- upon the submission by the Management Board member of a written resignation with the Chairman of the Supervisory Board.

2.3 Powers of Management Board Members

The Management Board adopts decisions, by way of resolutions, on matters not entrusted by law or the Articles of Association to other governing bodies of the Bank, and in particular the Management Board:

1) formulates the Bank's strategy;

2) forms and dissolves committees and determines their powers and responsibilities;

3) determines the Management Board Rules and Regulations and submits them to the Supervisory Board for approval;

4) determines, and submits to the Supervisory Board for approval, regulations for management of special funds created from net income;

5) determines dividend payment dates, on the basis of limits voted by the General Meeting;

6) appoints commercial proxies, general authorised representatives and general authorised representatives entitled to substitution;

7) makes decisions concerning the matters defined in the Management Board Rules and Regulations;

8) settles the matters submitted to it for consideration by the President of the Bank's Management Board, Vice-President or a member of the Management Board;

9) makes independent decisions on the purchase and sale of real estate, perpetual usufruct or participations in real property;

10) adopts annual financial plans, investment plans and reports on their performance;

11) approves reports on operations and financial statements;

12) recommends the appropriation of profits or coverage of losses;

13) approves the HR and credit policy, and the legal principles of the Bank operation;

14) approves the capital management policy;

15) approves the employment structure;

16) determines the basic organisational structure of the Bank, appoints and discharges heads of Sectors and Divisions, and defines their powers and responsibilities;

17) determines control plans for the Bank and approves audit and inspection reports;

18) decides on other matters that, according to the Articles of Association, require submission with the Supervisory Board or the General Meeting;

19) adopts decisions to incur liabilities or sell assets the total value of which with respect to one entity exceeds 5% of the Bank's shareholders' equity or grants authorisations to indicated persons to adopt such decisions, also with respect to the matters within the competencies of the Committees appointed within the Bank; the decisions are made after the respective Committee is consulted.

2.4 Total Number and Nominal Value of the Bank Shares and the Shares in Affiliated Companies of the Bank held by Members of the Management Board and the Supervisory Board

No member of the Management Board is a shareholder of the Bank or of any affiliated company of the Bank. One member of the Supervisory Board holds 1 200 shares of Bank Handlowy w Warszawie S.A.

2.5 Agreements between the Bank and Members of the Management Board that Provide for Compensation in the Event of Their Resignation or Discharge Without Appropriate Justification or in Consequence of Takeover of the Bank

There is one agreement between the Bank and a member of the Management Board that includes a provision for cash compensation in case of termination.

Each of the Management Board members signed with the Bank a separate non-competition agreement. The relevant paragraph in each of these agreements specifies that in the period of 12 months following termination of the employment contract with the Bank, the Management Board Member must refrain from conducting business activities competitive to the Bank and that the Bank will pay relevant compensation to the Management Board Member.

Only in one case compensation will be payable to a member of the Management Board in the period of 6 months following agreement termination as stated above.

3. Other Rules

3.1 Holders of Securities with Attached Special Control Powers towards the Bank

All the shares issued by the Bank are ordinary bearer shares and provide no special control powers towards the Bank.

3.2 Limitations on Transfer of Ownership Titles to the Bank Securities and Limitations in Exercise of Voting Rights Arising from the Bank Shares

In addition to the limitations set forth by the Banking Law Act (Article 25), a person who takes up or acquires more than 10%, 20%, 25%, 33%, 50%, 66% or 75% of all Bank shares must obtain a permit of the Polish Commission for Banking Supervision. A permit is also required to dispose of shares, if the holder had previously exceeded the abovementioned limits. The Articles of Association impose no other restrictions on transfers of the Bank shares.

Other information required pursuant to the Ordinance of the Ministry of Finance dated 19 October 2005 on Current and Periodic Information Provided by Issuers of Securities (Journal of Laws, No. 209, item 1744) has been included in these financial statements of the Bank.

Signatures of the Management Board Members

Date	Forename and surname	Position / function	Signature
20.09.2007	Sławomir Sikora	President of the Management Board	
20.09.2007	Edward Wess	Vice-President of the Management Board	
20.09.2007	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	
20.09.2007	Witold Zieliński	Vice-President of the Management Board	
20.09.2007	Michał H. Mrożek	Vice-President of the Management Board	
20.09.2007	Lidia Jabłonowska-Luba	Member of the Management Board	