REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN 1H 2008

SEPTEMBER 2008

CONTENTS

I. Poland's Economy in the First Half of 2008

1. Main Macroeconomic Trends

In the early months of 2008 the Polish economy experienced a minor slowdown, with GDP growing by 6.1% YOY in the first quarter of 2008 compared to 6.6% in the entire year 2007. Industrial production increased by 8.6% YOY in the first half of 2008, driven primarily by dynamic growth of the processing sector. In spite of tell-tale signs of an economic slowdown, labour market conditions remained favourable while average wage inflation in the enterprise sector reached 11.6% YOY in the period. The jobless rate declined to a record low of 9.6%.

The first half of 2008 the economy also experienced clear increase in prices of consumer goods and services, with inflation index increasing in the period by an average of 4.2% YOY while in 2007 it rose by 2.5%. The inflation growth was fuelled primarily by electricity, gas and fuel price increases. At the same time the price pressure was partially offset by dynamic strengthening of the Polish currency, which brought down prices of imported goods. Average base inflation – net of food and energy prices – in the first half of 2008 reached 1.9% YOY.

Prospects of general inflation increase and dynamic wage inflation growth induced the Polish Monetary Policy Council to maintain the current tight monetary policy cycle. In the first half of 2008 the Monetary Policy Council increased the prime rate by 100 basis points to 6.00%. At the same time, representatives of the monetary authority have commented that they do not exclude further monetary tightening aimed at stabilising the inflationary expectations and curtailing pay increase pressures.

2. Money Markets and FX Markets

In the first half of 2008 the interest rates market as well as the foreign exchange market were impacted in a major way by the continuing credit market crisis as it had propagated risk averse behaviour in the financial markets. Other credit crisis consequences included a slowdown in the U.S. economy and further lowering of interest rate by the Federal Reserve Board, down to 2% in April 2008.

In the first half of 2008 the Polish currency attracted substantial investor interest, as a result the Polish złoty consistently appreciated against other currencies. The end of the first half of 2008 złoty exchange rate stood at PLN 2.12 against the US dollar and PLN 3.35 against the euro. Appreciation of the złoty was supported by the interest rate increases by the Monetary Policy Council, this against the backdrop of falling U.S. rates and flat Eurozone rates. The Monetary Policy Council increased the prime rate in the first half of 2008 by 100 bps – to 6.00% in June.

The Polish debt market reflected the monetary tightening, which the Monetary Policy Council continued to pursue in the first half of 2008, as the Polish government bond yields improved. However, the growing inflation and the continued pay raise pressures contributed to dampening of the debt market sentiment and further fall in bond prices. In the first half of 2008 annual swap rate rose from 62% to 6.9%, five-year rose from 6.0% to 6.7% and 10-year rate rose from 5.8% to 6.4%.

3. Capital Market

The first half of 2008 turned out to be one of the worst periods in the history of the Warsaw bourse. All the main market indices lost in excess of 25%, with the deepest declines observed among the mid-cap stocks (mWIG40 index competed the first half of the year over 34% below the year-end 2007 value). The WIG20 blue chip stocks index reached 2,591 points, which represented a 25% decline over the first half of 2007.

Telecommunications stood out against the other sectors, with its index loosing "only" 5% over the first six months of the year. At the other extreme were the development sector and the fuel sector, which experienced the deepest discounts on the Warsaw Stock Exchange (of 39.5% and 34.6% respectively).

In the first half of 2008 the Warsaw Stock Exchange (WSE) listed 23 new stocks (including 4 foreign stocks). Value of the public offerings brought to the market over this period reached PLN 7.8 billion (decline by 49% YOY), of which 21% represented new issue shares. This substantial decline in growth arises from the fact that numerous companies decided to postpone or withdraw their public offerings.

As at 30 June 2008 366 companies (including 25 foreign) traded on WSE's main floor, with total market capitalisation exceeding PLN 751 billion (split evenly between domestic and foreign companies). The global economic downturn, galloping commodity prices (particularly of oil) coupled with active redemption of domestic unit trusts investing in international assets all contributed to a 31% decline in the Warsaw market capitalisation over the 2007 year-end figure.

WSE equity indices, as at 30 June 2008

Index	30.06.2008	31.12.2007	HOH Change (%)	30.06.2007	YOY Change (%)
WIG	41,146.26	55,648.54	(26.1%)	66,077.69	(37.7%)
WIG-PL	40,550.50	55,011.93	(26.3%)	66,175.48	(38.7%)
WIG20	2,591.09	3,456.05	(25.0%)	3,759.28	(31.1%)
mWIG40	2,649.88	4,028.37	(34.2%)	5,684.46	(53.4%)
sWIG80	11,346.34	15,917.92	(28.7%)	21,381.65	(46.9%)
Sector specific sub-indices					
WIG-Banks	6,009.90	7,949.94	(24.4%)	8,783.89	(31.6%)
WIG-Construction	6,754.71	8,673.57	(22.1%)	11,685.96	(42.2%)
WIG-Developers	2,896.05	4,788.89	(39.5%)	6,463.06	(55.2%)
WIG-IT	1,302.84	1,764.67	(26.2%)	2,291.18	(43.1%)
WIG-Media	3,435.90	4,911.01	(30.0%)	4,349.56	(21.0%)
WIG-Fuel industry	2,320.08	3,548.44	(34.6%)	3,761.01	(38.3%)
WIG-Food industry	2,306.41	3,317.96	(30.5%)	4,703.03	(51.0%)
WIG-Telecommunications	1,206.28	1,270.21	(5.0%)	1,404.89	(14.1%)

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

In the first half of 2008 activity of equity investors decreased compared to equivalent period a year earlier. Total WSE equities market turnover exceeded PLN 170 billion, which represented a 29% decline over the first half of 2007.

Bond trading experienced a 9.5% downturn in the first half of 2008 and reached PLN 1.799 billion, though compared to the second half of 2007 growing interest in fixed-income instruments has been in evidence (+9.4%).

In the first six months of 2008 volume of trading in futures and options contracts reached 6.147 million units, thus demonstrating 57% YOY growth.

Volumes of trade in shares, bonds and derivative instruments on WSE, as at 30 June 2008

PLN m	1H 2008	2H 2007	HOH Change (%)	1H 2007	YOY Change (%)
Shares	170,423	208,738	(18.4%)	240,053	(29.0%)
Bonds	1,799	1,645	9.4%	1,987	(9.5%)
Futures and options contracts ('000 units)	6,147	6,270	(2.0%)	3,911	57.2%

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

4. Banking Sector

The Polish banking sector retained high rate of growth, in spite of turbulences in the global financial markets. Net financial result of the banking sector in the first half of 2008 reached a record level of PLN 8.6 billion, which was a 22% increase over that of the first half of 2007. In the same period revenue of the sector increased by 19% YOY as total costs rose by 14% YOY, thus improving the cost to income ratio from 55% in the first half of 2007 to 53% in the first half of 2008. Significant revenue growth contributors included improved interest income (25% YOY) and FX gains (34% YOY).

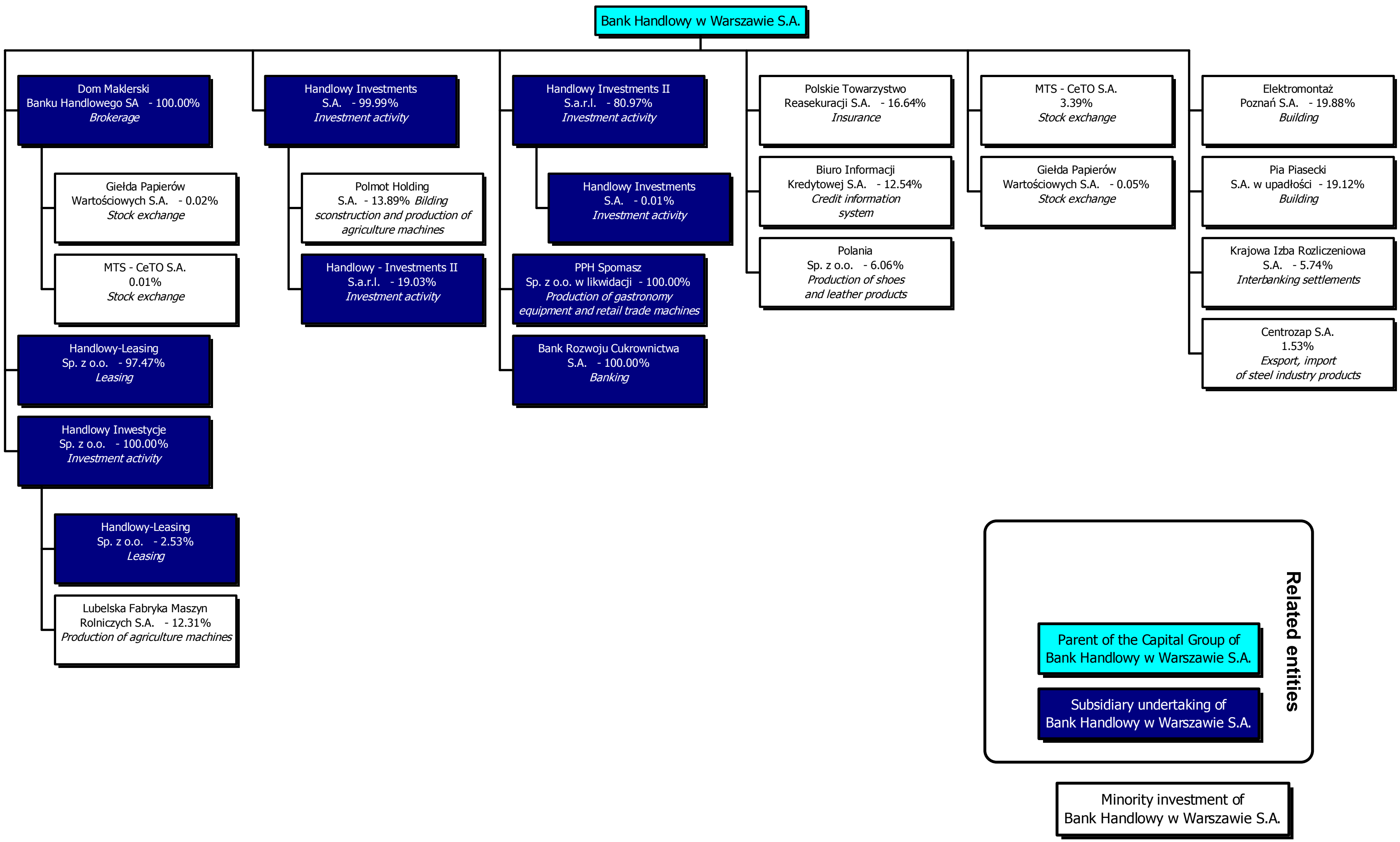
The consistent and dynamic growth in banking sector earnings has been driven by strong asset growth, by 22% YOY as at the end of the first half of 2008.

Volume of corporate loans grew by 27% YOY and 6% QOQ while corporate deposits grew at a lower rate (7% YOY), which testifies of continuing demand for development capital.

The sector's portfolio of retail loans also grew at a high rate of 38% YOY, with mortgage lending volumes growing by 42% YOY. In retail deposits the sector registered substantial growth of 23% YOY, which was driven by continuing uncertainty prevailing in the global financial markets, sharp stock market declines and the resultant deteriorating yields achieved by the investment funds industry. These conditions induced many, and particularly the retail customers, to redeem their investment units in search for safer forms of capital investment, such as bank deposits, which have been bearing higher interest, because of growing interest rates and intense competition in the banking sector. Total of PLN 19 billion in net terms was withdrawn from investment funds in the first half of 2008, while bank deposit volume increased by PLN 33 billion.

II. Organisational chart 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 2008, including share interests held in respective companies.


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
Handlowy-Leasing Sp. z o.o. - 97.47% Leasing
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
Polmot Holding S.A. - 13.89% Bilding sconstruction 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. 1.53% Exsport, import of steel industry products
Related entities
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiary undertaking of Bank Handlowy w Warszawie S.A.
Minority investment of Bank Handlowy w Warszawie S.A.

III. 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 its subsidiaries:

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Business	Capital relationship	% of authorised capital held	Accounting method	Shareholders' equity (PLN '000)
Bank Handlowy w Warszawie S.A.	banking	parent company	-	-	5,151,671*
Dom Maklerski Banku Handlowego S.A. („DMBH")	brokerage	subsidiary	100.00%	full consolidation	86,572
Handlowy - Leasing Sp. z o.o.	leasing	subsidiary	100.00%**	full consolidation	179,083
Handlowy Investments S.A.	investments	subsidiary	100.00%	full consolidation	27,612
PPH Spomasz Sp. z o.o. under liquidation	-	subsidiary	100.00%	full consolidation	entity in liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per its stand alone financial statements in respect of 1H 2008*

*** Including indirect shareholdings*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Business	Capital relationship	% of authorised capital held	Accounting method	Shareholders' equity (PLN '000)
Handlowy Inwestycje Sp. z o.o.	investments	subsidiary	100.00%	equity valuation	12,461
Handlowy Investments II S.a.r.l.	investments	subsidiary	100.00%**	equity valuation	6,855
Bank Rozwoju Cukrownictwa S.A.	banking	subsidiary	100.00%	equity valuation	40,033

*** Including indirect shareholdings*

In the first half of 2008 the Group executed a transaction involving divestment of shares in Narodowy Fundusz Inwestycyjny Magna Polonia S.A. As at 11 January 2008 the Bank's subsidiary Handlowy Investments S.A. sold a stake of 390,323 shares in the said company, with nominal value per share of PLN 0.10 and total nominal value of PLN 39,032.30, which represented 3.04% of its share capital, via a WSE session.

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

1. Selected Financial Data of the Group

PLN million	30.06.2008	31.12.2007
Total assets	38,235.6	38,908.0
Equity	5,231.1	5,603.1
Loans*	14,074.6	12,486.5
Deposits*	20,539.2	19,811.4
Net profit	350.2	824.2
Capital adequacy ratio	11.6%	12.9%

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

2. Financial Results of the Group in the first half of 2008

2.1 Income Statement

In the first half of 2008 the Group generated profit before tax of PLN 441 million, which represented a PLN 108 million (or 20%) decline compared to that of the first half of 2007. In the same period consolidated net profit reached PLN 350 million, which represented a decline of PLN 89 million (or 20%) compared to equivalent period a year earlier. Operating profit (which includes net interest and commission income, dividend income, net gains on financial instruments held for trading and on revaluation, net gains on investment debt securities, net gains on investment equity securities and net other operating income / costs) in the first half of 2008 over the first half of 2007 remained on nearly unchanged level (a decline of only PLN 3 million) and reached PLN 1,267 million.

Both in the first half of 2008 and 2007 the Group registered certain significant one-off events, which impacted the Group results.

In the first half of 2008 the Group formed an employment restructuring provision in an amount of PLN 30 million, but registered additional operating income in an amount of PLN 11 million on account of court pronouncement favourable to the Bank ending a dispute. In the first half of 2007 a number of one-off transactions and events took place:

- PLN 6.7 million income recognised on sale of a minority interest in Stalexport S.A.;
- PLN 34 million income recognised on sale of a minority interest in NFI Empik Media & Fashion by Handlowy Investments S.A., the Bank's subsidiary;
- PLN 4 million income recognised on sale of shares in MasterCard; and
- Provision in an amount of PLN 10 million formed against a penalty imposed by the Office of Competition and Consumer Protection in proceedings relating to the banking sector interchange fees.

At exclusion of these transactions profit before tax in the first half of 2008 over the first half of 2007 fell by PLN 55 million (or 11%) while net profit fell by PLN 47 million (also 11%) whereas operating income rose by PLN 20 million or 2%.

Over the same period of the Group's operations its overheads and general administrative expenses and its depreciation rose by 5%, though at elimination of the impact of a employment restructuring provision formed in the first quarter of 2008 costs generated by the Group remained nearly flat at level of the first half of 2007 and stood at PLN 762 million (a PLN 6 million or 1% increase).

Summary income statement

	first half of		Change	
PLN '000	2008	2007	PLN '000	%
Net interest income	646,685	582,843	63,842	11.0%
Net commission income	329,395	363,660	(34,265)	(9.4%)
Dividend income	4,716	801	3,915	488.8%
Net gains on financial instruments held for trading and on revaluation	215,143	242,025	(26,882)	(11.1%)
Net gains on investment debt securities	29,095	10,740	18,355	170.9%
Net gains on investment equity securities	(168)	43,993	44,161	(100.4%)
Net other operating income	41,714	25,762	15,952	61.9%
Income, total	**1,266,580**	**1,269,824**	**(3,244)**	**(0.3%)**
Overheads and general administrative expenses and depreciation	(792,345)	(756,766)	(35,579)	4.7%
Overheads and general administrative expenses	(742,514)	(701,281)	(41,233)	(5.9%)
Depreciation	(49,831)	(55,485)	5,654	10.2%
Net gains on sale of fixed assets	1,447	(590)	2,037	(345.3%)
Net change in impairment losses	(36,134)	45,663	(81,797)	(179.1%)
Share in net profits/(losses) of entities valued by equity method	1,809	(8,514)	10,323	(121.2%)
Profit before tax	**441,357**	**549,617**	**(108,260)**	**(19.7%)**
Income tax expense	(91,186)	(110,047)	18,861	17.1%
Net profit for the period	**350,171**	**439,570**	**(89,399)**	**(20.3%)**

2.1.1 Revenue

Operating income achieved in the first half of 2008 stood at PLN 1,266.6 being only PLN 3.2 million lower than operating income of the first half of 2007 and was driven by the following factors:

- Net interest income increased by PLN 63.8 million or 11.0%, primarily through increases in interest income on retail and corporate loans; with credit card interest income being the highest growth retail lending related income category. Moreover, the Group registered growth in interest income on bank deposits and significant reduction in bank deposit expense. Also, of major impact was the growth in interest income on mandatory reserve deposited with the Central Bank;
- Net commission income declined by PLN 34.3 million or 9.4%, primarily in commissions on investment and insurance products in the Consumer Bank and commissions on brokerage and custody services;
- Net gains on financial instruments held for trading and on revaluation amounted to PLN 215.1 million against PLN 242.0 million in the first half of 2007. The lower result on financial instruments held for trading and on revaluation resulted from intensified volatility of fixed-income markets and the global markets becoming more risk averse;
- Net gains on investment debt securities amounted to PLN 29.1 million, which was an PLN 18.4 million or 170.9% growth over the first half of 2007 gained through active portfolio management and exploitation of favourable conditions on the international bond markets;
- Net gains on investment equity securities fell by PLN 44.2 million, primarily due to the fact that in the first half of 2007 the Group booked a series of material one-off transaction gains (sale of minority interest in NFI Empik Media & Fashion by Handlowy Investments S.A., the Bank's subsidiary and sale of share stakes in MasterCard and Stalexport S.A.);
- Net other operating income rose by PLN 16.0 million or 61.9%, primarily as the Group booked two one-off events that occurred in the first half of 2008 and in 2007: recognition of additional operating income in the first half of 2008 in an amount of PLN 11 million on account of court pronouncement favourable to the Bank ending a dispute and formation in equivalent period a year earlier of a provision in an amount of PLN 10 million against a penalty imposed by the Office of Competition and Consumer Protection in proceedings relating to the banking sector interchange fees.

2.1.2 Expenses

Expenses

PLN '000	first half of 2008	2007	Change PLN '000	%
Personnel costs	**392,845**	**344,210**	**48,635**	**14.1%**
General administrative expenses, including	**349,669**	**357,071**	**(7,402)**	**(2.1%)**
Costs of telecommunication fees and IT hardware	74,371	84,339	(9,968)	(11.8%)
Building maintenance and rent	54,537	53,331	1,206	2.3%
Advisory, audit, consulting and other services	61,411	67,134	(5,723)	(8.5%)
Total overheads	**742,514**	**701,281**	**41,233**	**5.9%**
Depreciation	49,831	55,485	(5,654)	(10.2%)
Total expenses	**792,345**	**756,766**	**35,579**	**4.7%**

In the first half of 2008 overheads of the Group including depreciation reached PLN 792 million compared to PLN 757 million in equivalent period of the year 2007 (increase of PLN 36 million or 5%). The expense increase was driven mainly by personnel costs, with primary impact coming from formation in the first quarter of 2008 of a PLN 30 million employment restructuring provision. This amount was allocated between the respective business segments as follows: PLN 17 million to the Corporate Bank with the remaining PLN 13 million charged to the Consumer Bank.

The rise in personnel costs was largely compensated by decline in depreciation (by PLN 6 million or 10%) and general and administrative expenses (by PLN 7 million or 2.1%).

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	first half of 2008	2007	Change PLN '000	%
Net impairment losses incurred but not reported (IBNR)	1,386	(387)	1,773	458.2%
Net impairment losses on loans and off-balance sheet liabilities	(37,520)	46,050	(83,570)	(181.5%)
accounted for individually	1,929	51,362	(49,433)	(96.2%)
accounted for collectively (on a portfolio basis)	(39,449)	(5,312)	(34,137)	(642.6%)
Total change in impairment losses	**(36,134)**	**45,663**	**(81,797)**	**(179.1%)**

In the first half of 2008 the Group's net impairment losses of financial assets amounted to PLN 36.1 million, a result of lower rate or repayment of delinquent loans in the Corporate Bank and of increased provisioning in the Consumer Bank, mostly driven by loan portfolio growth, increasing arrears in receivables and implementation in the Consumer Bank of uniform rules toward impairment losses for portfolios with similar risk profiles.

2.2 Balance Sheet

As at 30 June 2008, total assets of the Group amounted to PLN 38,235.6 million and were 1.7% lower than at the end of the first half of 2007.

Balance sheet

	As at		Change	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
ASSETS				
Cash and balances with central bank	2,443,861	3,321,503	(877,642)	(26.4%)
Financial assets held for trading	4,312,394	5,135,708	(823,314)	(16.0%)
Debt securities available-for-sale	6,753,584	6,467,638	285,946	4.4%
Equity investments valued by equity method	56,536	58,388	(1,852)	(3.2%)
Equity investments	20,609	21,909	(1,300)	(5.9%)
Loans and advances	21,842,497	21,205,373	637,124	3.0%
to financial sector	7,767,905	8,718,832	(950,927)	(10.9%)
to non-financial sector	14,074,592	12,486,541	1,588,051	12.7%
Property and equipment	597,661	612,797	(15,136)	(2.5%)
land, buildings and equipment	572,469	587,769	(15,300)	(2.6%)
investment property	25,192	25,028	164	0.7%
Intangible assets	1,282,934	1,284,078	(1,144)	(0.1%)
Deferred income tax	361,300	374,468	(13,168)	(3.5%)
Other assets	551,589	413,477	138,112	33.4%
Non-current assets available-for-sale	12,645	12,645	0	0.0%
Total assets	**38,235,610**	**38,907,984**	**(672,374)**	**(1.7%)**
LIABILITIES				
Financial liabilities held for trading	3,825,553	4,373,146	(547,593)	(12.5%)
Financial liabilities valued at amortized cost	27,382,219	28,000,003	(617,784)	(2.2%)
deposits from	26,086,453	26,896,411	(809,958)	(3.0%)
financial sector	5,547,239	7,085,042	(1,537,803)	(21.7%)
non-financial sector	20,539,214	19,811,369	727,845	3.7%
other liabilities	1,295,766	1,103,592	192,174	17.4%
Provisions	50,016	37,548	12,468	33.2%
Income tax	241	101,889	(101,648)	(99.8%)
Other liabilities	1,746,465	792,314	954,151	120.4%
Total liabilities	**33,004,494**	**33,304,900**	**(300,406)**	**(0.9%)**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	3,029,703	3,028,809	894	0.0%
Revaluation reserve	(280,422)	(182,450)	(97,972)	(53.7%)
Other reserves	1,619,574	1,454,355	165,219	11.4%
Retained earnings	339,623	779,732	(440,109)	(56.4%)
Total equity	**5,231,116**	**5,603,084**	**(371,968)**	**(6.6%)**
Total liabilities and equity	**38,235,610**	**38,907,984**	**(672,374)**	**(1.7%)**

2.2.1 Assets

Gross loan receivables*

	As at		Change	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
Banks and other monetary financial institutions	7,347,854	8,273,004	(925,150)	(11.2%)
Non-banking financial institutions	495,410	522,317	(26,907)	(5.2%)
Non-financial sector entities	10,123,654	9,016,472	1,107,182	12.3%
Individuals	5,251,471	4,767,344	484,127	10.2%
Government units	58,087	60,652	(2,565)	(4.2%)
Other receivables	15,191	7,848	7,343	93.6%
Total	**23,291,667**	**22,647,637**	**644,030**	**2.8%**

** receivables with payable interest*

In the first half of 2008 loan portfolio of non-financial sector entities increased significantly (by PLN 1.6 billion or 12.7% compared to 2007 year-end level). In gross terms, loans to non-financial sector entities rose to PLN 1.1 billion or 12.3% while loans to individuals rose by PLN 0.5 billion or 10.2%.

In spite of a decline in loan receivables of the financial sector registered over the first half of 2008, this line item remains the second largest asset component, with balance sheet value, as at 30 June 2008, of PLN 7.8 billion, which represented a decline of 10.9%.

Portfolio of securities available-for-sale were the third largest asset category. Compared to the balance as at 2007 year-end, minor growth of PLN 285.9 million or 4.4% occurred, this in spite of a decline in the overall debt securities portfolio.

Debt securities portfolio

	As at		Change	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
Treasury bonds	6,654,330	6,849,596	(195,266)	(2.9%)
NBP bonds	369,902	377,428	(7,526)	(2.0%)
Treasury bills	257,748	69,035	188,713	273.4%
Certificates of deposit and bank bonds	90,407	85,883	4,524	5.3%
Issued by non-financial entities	73,732	50,771	22,961	45.2%
Issued by financial entities	39,858	158,981	(119,123)	(74.9%)
Total	**7,485,977**	**7,591,694**	**(105,717)**	**(1.4%)**

2.2.2 Liabilities

Financial liabilities valued at amortized cost

	As at		Change	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
Due to financial sector	**5,544,899**	**7,044,168**	**(1,499,269)**	**(21.3%)**
- banks and other monetary financial institutions	2,145,362	3,896,336	(1,750,974)	(44.9%)
- due to non-banking financial sector	3,399,537	3,147,832	251,705	8.0%
Due to non-financial sector including:	**20,524,134**	**19,798,593**	**725,541**	**3.7%**
- corporate clients	12,124,815	13,153,014	(1,028,199)	(7.8%)
- individuals	5,930,517	5,194,835	735,682	14.2%
Other liabilities including accrued interest:	**1,313,186**	**1,157,242**	**155,944**	**13.5%**
Total	**27,382,219**	**28,000,003**	**(617,784)**	**(2.2%)**

Amounts due to non-financial sector clients and customers were the main source of funding of the Group's assets. Compared to the balances as at the end of 2007, amounts due to corporate clients decreased by PLN 1,028.2 million or 7.8% while amounts due to individuals increased by PLN 735.7 million or 14.2%. 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 available on the market. As a result, this account product met with very high interest of customers.

Within amounts due to financial sector, the balance of amounts due to banks and other monetary financial institutions declined by PLN 1,751.2 million or 44.5%.

The fact that unrealised gains/losses on derivative instruments accounted for a considerable proportion of assets and liabilities of the Group's balance sheet was also significant and reflected the scale of the Bank'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	30.06.2008	31.12.2007
Funds of banks and other monetary financial institutions	3,136,562	4,601,505
Funds of customers and government units	24,245,657	23,398,498
Own funds with net income	5,231,116	5,603,084
Other external funds	5,622,275	5,304,897
Total source of funds	**38,235,610**	**38,907,984**

Use of funds	30.06.2008	31.12.2007
Receivables from banks and other monetary financial institutions	7,346,222	8,271,118
Receivables from customers and government units	14,496,275	12,934,256
Securities, shares and other financial assets	11,143,123	11,683,643
Other uses of funds	5,249,990	6,018,967
Total use of funds	**38,235,610**	**38,907,984**

2.3 Equity and Capital Adequacy Ratio

Compared to the balance as at the end of 2007, the Group's equity as at the end of the first half of 2008 increased slightly, specifically by 2.1%. This resulted from an increase of PLN 167.8 million in supplementary capital, being part of the net profit for the year 2007, an increase in retained earnings of PLN 31.4 million and a decrease of PLN 98.0 million in revaluation reserve, primarily at revaluation of financial assets available for sale.

Equity

	As at		Change	
PLN '000	30.06.2008	31.12.2007	PLN '000	%
Issued capital	522,638	522,638	-	0.0%
Share premium	3,029,703	3,028,809	894	0.0%
Supplementary capital	1,233,821	1,066,053	167,768	15.7%
Revaluation reserve	(280,422)	(182,450)	(97,972)	(53.7%)
General risk reserve	390,000	390,000	-	0.0%
Retained earnings	(14,795)	(46,181)	31,386	68.0%
Total equity	**4,880,945**	**4,778,869**	**102,076**	**2.1%**
Tier 1 capital	5,176,162	5,007,500	168,662	3.4%
Tier 2 capital	(280,422)	(182,450)	(97,972)	(53.7%)
Other equity	(14,795)	(46,181)	31,386	68.0%

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 2008, capital adequacy ratio of the Group stood at 11.63%, down 1.23 percentage points from its value as at the end of 2007. This resulted from an increase in operational risk, credit risk and counterparty risk related additional capital requirements.

Capital adequacy ratio

PLN '000	30.06.2008	31.12.2007
Own funds, as stated on the balance sheet	**4,880,774**	**4,777,376**
Less:	1,339,470	1,342,465
- goodwill	1,245,976	1,245,976
- other intangible assets	36,958	38,102
- interests in subordinated financial entities	56,536	58,387
Own funds for the calculation of capital adequacy ratio	**3,541,304**	**3,434,911**
Risk-weighted assets and off-balance sheet liabilities (bank portfolio)	**20,523,738**	**17,444,865**
Total capital requirement, including:	**2,436,245**	**2,137,404**
- capital requirement to cover credit risk	1,641,899	1,395,589
- capital requirement to cover counterparty risk	178,605	123,926
- capital requirement to cover excess exposure concentration and large exposures limit	101,405	356,051
- total capital requirements to cover market risk	155,040	253,531
- capital requirement to cover operational risk	347,112	-
- other capital requirements	12,184	8,307
Capital adequacy ratio	**11.63%**	**12.86%**

Capital adequacy ratio is calculated in accordance with the rules set out by resolution No. 1/2007 of the Banking Supervision Commission dated 13 March 2007 on the Scope and Detailed Rules of Determining Capital Requirements for Coverage of Respective Types of Risks (...) (Official Journal of NBP No. 2, item 3). Pursuant to paragraph 14 point 3 of the abovementioned resolution, as at 31 December 2007, the Bank reduced the entire capital requirement to cover operational risk.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2008

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 2008 the Group continued to optimise its lending process and to adjust its credit offer to the needs of its clients and customers and the current market conditions. 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. Credit risk assessment and scoring assessment draw on information provided by the Credit Information Bureau. In the years 2006-2008 the Bank implemented scorecard models for cash loan portfolios and unsecured credit lines.

Lending to non-bank customers, gross

	As at		Change	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
Loans in PLN	14,320,538	12,759,315	1,561,223	12.2%
Loans in foreign currency	1,578,574	1,615,319	(36,745)	(2.3%)
Total	**15,899,112**	**14,374,634**	**1,524,478**	**10.6%**
Loans to non-financial sector	15,390,316	13,791,665	1,598,651	11.6%
Loans to financial sector	450,709	522,317	(71,608)	(13.7%)
Loans to public sector	58,087	60,652	(2,565)	(4.2%)
Total	**15,899,112**	**14,374,634**	**1,524,478**	**10.6%**
Non-financial corporates	10,123,654	9,016,473	1,107,181	12.3%
Individuals	5,251,471	4,767,344	484,127	10.2%
Non-bank financial entities	450,709	522,317	(71,608)	(13.7%)
Public entities	58,087	60,652	(2,565)	(4.2%)
Other non-financial receivables	15,191	7,848	7,343	93.6%
Total	**15,899,112**	**14,374,634**	**1,524,478**	**10.6%**

As at 30 June 2008, gross credit exposure to the non-financial sector amounted to PLN 15,899.1 million, representing an increase of 10.6% as compared with 31 December 2007. The largest part of the non-financial sector credit portfolio, being loans to non-financial corporates (63.7%), increased by 12.3% in the first half of 2008 as a result of higher utilisation of the credit lines granted earlier. Loans to individuals grew in comparison with the year 2007 by 10.2% to PLN 5,251.5 million. Their share in total gross credit exposures rose by 0.2 of a percentage point. Growth in loans to individuals has been achieved through development of the offer addressed to retail customers and intensification of promotional and sales activities.

As at 30 June 2008, currency structure of lending changed slightly as compared with the end of 2007. The share of foreign currency loans, which in December 2007 stood at 11.2%, decreased to 9.9% by

30 June 2008. Worth noting is that the Group grants foreign currency loans to customers who have relevant foreign currency cash flows or to those who, in the Group's opinion, are able to predict or absorb the currency risk without significant deterioration of their financial position.

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 2008, 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	30.06.2008			31.12.2007		
	Balance outstanding*	Off-balance sheet outstanding	Total outstanding	Balance outstanding*	Off-balance sheet outstanding	Total outstanding
GROUP 1	505,211	142,383	647,594	443,585	159,694	603,279
GROUP 2	132,037	379,690	511,727	132,638	473,595	606,233
GROUP 3	178,615	298,235	476,850	186,218	298,882	485,100
CLIENT 4	435,744	28,612	464,356	167,690	141,592	309,282
GROUP 5	3,971	378,582	382,553	21	360,522	360,543
CLIENT 6	80,849	225,719	306,568	10	125,425	125,435
CLIENT 7	300,000	-	300,000	250,000	-	250,000
GROUP 8	91,009	186,816	277,825	36,406	255,205	291,611
CLIENT 9	199,315	50,685	250,000	199,913	150,087	350,000
GROUP 10	138,711	103,114	241,825	119,010	100,668	219,678
Total 10	**2,065,462**	**1,793,836**	**3,859,298**	**1,535,491**	**2,065,670**	**3,601,161**

** Excluding equity and other securities exposures*

1.2 Loan Portfolio Quality

All receivables of the Group 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/or collectively.

As at 30 June 2008, the share of loans at risk of impairment constituted 10.8% of total portfolio while, as at 31 December 2007, it constituted 11.8% of total portfolio. The decrease was related to the classifiable portfolio accounted for individually and arose from both repayment of outstanding amounts in that customer group and growth of the Bank's loan portfolio.

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

	As at			
PLN '000	30.06.2008		31.12.2007	
Loans to non-banking sector, gross				
	PLN '000	Share in %	PLN '000	Share in %
Not at risk of impairment	14,179,664	89.2%	12,677,263	88.2%
At risk of impairment	1,719,448	10.8%	1,697,371	11.8%
accounted for individually	1,203,201	7.6%	1,209,816	8.4%
accounted for collectively (on a portfolio basis)	516,247	3.2%	487,555	3.4%
Total loans to non-banking sector, gross	**15,899,112**	**100.0%**	**14,374,634**	**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.

As at 30 June 2008, loan portfolio impairment stood at PLN 1,447.5 million, a slight increase on PLN 1,440.4 million, as at 31 December 2007. Increase in exposures at risk of impairment accounted for collectively (IBNR and small exposures) was counterbalanced by decline in exposures at risk of impairment accounted for individually. Provision coverage index fell from 10% in December 2007 to 9.1% in June 2008 as a result of a slight growth in total impairment accompanied by substantial growth of loan receivables in the Group by over PLN 1.6 billion over the same period.

Impairment of non-bank loan portfolio

	As at		**Change**	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
Net impairment losses incurred but not reported (IBNR)	56,768	49,845	6,923	13.9%
Impairment of receivables	1,390,772	1,390,533	239	0.0%
accounted for individually	981,212	1,004,895	(23,683)	(2.4%)
accounted for collectively (on a portfolio basis)	409,560	385,638	23,922	6.2%
Total impairment	**1,447,540**	**1,440,378**	**7,162**	**0.5%**
Total provision coverage index	9.1%	10.0%		
Provision coverage index for receivables at risk	84.2%	84.9%		

1.3 Off-Balance Sheet Exposures

As at 30 June 2008, off-balance sheet exposures of the Group amounted to PLN 12,815.4 million, representing an increase by 4.1% as compared with 31 December 2007. The largest change related to unused committed lines, which represented 82% of off-balance sheet contingent liabilities and which fell by PLN 372 million or 3.4%. The committed loans line item represents undrawn committed credit lines and overdrafts.

Off-balance sheet exposures

	As at		**Change**	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
Guarantee	2,015,399	2,158,948	(143,549)	(6.6%)
Letters of credit issued	183,208	146,673	36,535	24.9%
Third-party confirmed letters of credit	18,241	13,131	5,110	38.9%
Committed loans	10,502,048	10,874,042	(371,994)	(3.4%)
Underwriting	49,500	172,000	(122,500)	(71.2%)
Forward placements	46,959	-	46,959	100%
Total	**12,815,355**	**13,364,794**	**(549,439)**	**(4.1%)**
Provisions for off-balance sheet liabilities	8,812	13,574	(4,762)	(35.1%)
Provision coverage index	0.07%	0.10%		

As at 30 June 2008, total collateral held on accounts (or assets) of borrowers amounted to PLN 4,234 million whereas, as at 31 December 2007, it stood at PLN 3,980 million.

In the first half of 2008, the Group issued 2,132 enforcement titles amounting to PLN 59.8 million while in the first half of 2007 the number of enforcement titles stood at 2,019 amounting to PLN 23.6 million.

2. External Funding

As at 30 June 2007, total external funding of the Group was PLN 27,382.2 million and was PLN 617.8 million or 2.2% lower as compared with 31 December 2007.

External funding

	As at		Change	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
Due to financial sector	**5,547,239**	**7,085,042**	**(1,537,803)**	**(21.7%)**
Funds on current accounts, including:	2,597,787	2,434,363	163,424	6.7%
- funds on current accounts of banks and other monetary financial institutions	*1,668,092*	*2,190,764*	*(522,672)*	*(23.9%)*
Deposits, including:	2,947,112	4,609,805	(1,662,693)	(36.1%)
- deposits of banks and other monetary financial institutions	*477,270*	*1,705,572*	*(1,228,302)*	*(72.0%)*
Accrued interest	2,340	40,874	(38,534)	(94.3%)
Due to non-financial sector	**20,539,214**	**19,811,369**	**727,845**	**3.7%**
Funds on current accounts, including:	8,660,897	8,050,347	610,550	7.6%
- corporate clients	*3,722,213*	*3,939,403*	*(217,190)*	*(5.5%)*
- individuals	*4,232,420*	*3,498,981*	*733,439*	*21.0%*
- public sector entities	*444,418*	*224,502*	*219,916*	*97.9%*
Deposits, including:	11,863,237	11,748,246	114,991	1.0%
- corporate clients	*8,402,602*	*9,213,611*	*(811,009)*	*(8.8%)*
- individuals	*1,698,097*	*1,695,854*	*2,243*	*0.1%*
- public sector entities	*1,193,686*	*332,744*	*860,942*	*258.7%*
Accrued interest	15,080	12,776	2,304	18.0%
Other liabilities, including:	**1,295,766**	**1,103,592**	**192,174**	**17.4%**
Sell-Buy-Backs	87,330	69,155	18,175	26.3%
Accrued interest	3,937	4,085	(148)	(3.6%)
Total external funding	**27,382,219**	**28,000,003**	**(617,784)**	**(2.2%)**

The largest changes in external funding included: in amounts due to financial sector a decline of PLN 1,228.3 million or 72% and in amounts due to non-financial sector a near threefold growth (of PLN 860.9 million) in term deposits of public sector entities.

Liabilities to non-bank customers

	As at		Change	
PLN '000	**30.06.2008**	**31.12.2007**	**PLN '000**	**%**
Liabilities towards:		,		
Individuals	5,844,786	5,227,134	617,652	11.8%
Non-financial economic entities	12,633,566	13,776,836	(1,143,270)	(8.3%)
Non-profit institutions	532,836	374,503	158,333	42.3%
Non-bank financial institutions	3,390,649	3,279,105	111,544	3.4%
Public sector	1,638,445	558,472	1,079,973	193.4%
Other liabilities	143,548	94,215	49,333	52.4%
Total	**24,183,830**	**23,310,265**	**873,565**	**3.7%**
PLN	19,197,194	18,814,665	382,529	2.0%
Foreign currency	4,986,636	4,495,600	491,036	10.9%
Total	**24,183,830**	**23,310,265**	**873,565**	**3.7%**

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

Liquidity and Cash Management Products

The Bank is a leading institution on the Polish banking market in the field of corporate liquidity management. Many local and international capital groups committed management of their cash pooling structures with the Bank. Another phase of building experience in this field was to commission structures of actual cash pooling for initial group of clients. As a result of implementation of the actual cash pooling structures at the end of each working day the negative balances of the structure participants are replenished to zero whereas surpluses on the accounts of the remaining participants are booked to a single designated account. The benefit accruing from implementation of the new solution is actual consolidation of funds on accounts of the group participants. The advantage of actual over virtual cash pooling is the actual consolidation of funds within the entire capital group on a single bank account. This facilitates more effective management of financial flows and centralisation of financial management within a capital group.

The Bank draws on the cash management experience gained on the local market and on the extensive scope of operation of Citigroup. It expanded its offer to include the possibility of consolidating balances of client accounts located in Citigroup branches throughout the region of Central and Eastern Europe on a single account held with the Bank. In terms of the Polish market, this international scale consolidation is a unique solution, one that responds to the needs companies expending their operations throughout the emerging markets of the Continent.

Reserved Account

The Reserved Account was awarded the prestigious EUROPRODUKT distinction, which constitutes an excellent promotion of the product. The leading dailies with nationwide circulation ran articles that provided publicity to and disseminated information on the service. One clear benefit, which the marketing brought out, is the fact that the reserved account effectively limits trade transaction risk. Structure of the reserved account involves commitment to the Bank of the role of a guardian of the interests of respective transaction parties. The reserved account agreement concluded between the supplier, the buyer and the Bank constitutes the basis for settlement of a transaction on terms and conditions established between the parties, with the Bank acting as the agreement executor. The solution is particularly useful whenever funds applied to execution of a specific transaction need to remain under strict control and be used in compliance with the purposes the transaction parties agree.

MicroPayments

MicroPayments (*Mikrowpłaty*) are a product addressed to courts and prosecution administrations. The new product allows these institutions to calculate and charge court deposit and bail interest at individual case level. In the first half of 2008 the Bank organised conferences and meeting that promoted this new solution. Presentations sought to familiarise the clients with the capabilities of the MicroPayments platform as it operates when integrated with financial systems. The promotional activity yielded expansion of the customer base.

Cash Products

Many transactions continue to be settled in cash in the Polish market. The Bank provides its clients with comprehensive cash payment, withdrawal and convoy services. The Bank counts some of the largest hypermarket and petrol station chains among its clients. Value of cash payments of its clients in the first half of 2008 was 10% higher than in the equivalent period a year earlier. In order to meet the growing expectations of its clients, the Bank expanded the list of locations at which cash can be deposited. The number of cash handling centres as at the end of the first half of 2008 was one third higher compared to the equivalent period of the year 2007.

Electronic Banking

In the first half of 2008 the Group continued to collaborate with suppliers of ERP (Enterprise Resource Planning) systems in Poland. The joint projects seek to increase compatibility between the financial and accounting systems used by the Bank's clients and the CitiDirect electronic banking platform, which has substantially facilitated distribution of the platform among potential clients and automation of the order entry process. There are now six certified software applications (IMPULS, CDN XL, CDN OPTIMA, XPERTIS 2008, SYMFONIA FORTE 2007 and SIMPLE.ERP), which ensure complete integration with the Bank's electronic banking systems.

In the first half of 2008 529 new clients were activated in the CitiDirect electronic banking system. Most activations took less than 48 hours from the moment of agreement signing. High customer service quality and customer satisfaction are priorities for the Bank. Rapid activation of electronic banking systems forms an important part in achieving that objective.

As at the end of the first half of 2008, the number of corporate clients with an Internet banking system compared with the end of the first half of 2007 rose by 16.65 % and presently exceeds 8 000. Total value of transactions processed over the period reached over PLN 430 billion, which represented PLN 14 billion or 3.4% growth over the equivalent period of the year 2007. In the first half of 2008 the number of paper-based transfers remained at a low level, with monthly average not exceeding 10,700.

Card Products

Since the beginning of the year 2008 the Bank continued to actively promote its prepaid cards through a number of conferences and seminars. The Bank also organised a series of regional conferences for potential public sector clients. The initiatives had been aimed at strengthening its position of leadership in the market: the Bank presently holds 71% market share. The Bank's prepaid cards are frequently used under loyalty and promotional programs. They are also used as instruments for distribution of social benefits. As at the end of the first half of 2008 the Bank issued total of over 395,000 prepaid cards while the number of active prepaid cards at the end of that period exceeded 285,000.

As at the end of the first half of 2008 the number of issued business cards reached 17,600, which represents growth of 13% compared to the number of this category cards issued at the end of the first half of 2007. The Bank has made efforts in order to support this impressive rate of growth.

Unikasa

In the first half of 2008, the Bank carried out a nationwide campaign aimed at promotion of the Unikasa Payment Processing Network. Unikasa is a modern product that facilitates servicing of the Bank customers' payables and allows payers settlement of their bills for products and services in the most frequently visited locations, such as hyper- and supermarket chains, petrol stations and customer service points. In order to expand the list of the available customer service points, the Bank implemented a new business model. Its counterparties can now create their own branded networks (White Label) and networks under the Unikasa Partner brand. The rules of settlement of payments accepted through the newly formed customer service points in the Unikasa system remain unchanged. In the first half of the year over 100 new agency points were opened under the Unikasa Partner brand.

In order to support the interest of payers of its largest network clients, the Bank conducted the Great Unikasa Lottery. The lottery participants were able to win attractive prizes: prepaid cards and gift sets.

The base of invoice issuers who accept settlements via the Unikasa network was expanded to include insurance and media companies.

Foreign Bank Transfers

In the first half of 2008 the Bank registered 13% growth in the number of transactions compared to the scale of these transactions in the equivalent period of the year 2007.

One of the Bank's priorities is achievement of complete integration between its euro payment solutions and the payment system used throughout the European Union. The Bank continually adjusts its offer to relevant EU directives. Its clients can execute SEPA payments, i.e. euro payments serviced in accordance with uniform rules. Worth underscoring is the fact that Bank Handlowy was one of a few banks on the Polish market to be ready from the very first day of SEPA implementation for both acceptance and dispatch of payments under the new system. As an expression of the Bank's openness to change and appreciation for the effort of implementation of the SEPA project, the Association of Polish Banks singled Bank Handlowy out as the SEPA Leader in Poland.

In response to recommendations of the European Central Bank, Bank Handlowy joint the TARGET2 clearing system. The TARGET2 platform supports settlement of euro transactions in real time within the European Union. Previously the payment transfer process between respective EU countries required involvement of at least two clearing systems. Now a single system is used to clear all, which increases precision and security of settlements.

Electronic Postal Cash Transfer

Electronic Postal Cash Transfers are a product addressed to corporate clients, who transfer funds in cash form to individuals. In the first half of 2008 the Bank achieved over 10% growth in the number of postal cash transfers compared to equivalent period in 2007 and over 21% growth in value of the executed transfers.

The Electronic Postal Cash Transfers service has stimulated much interest among new clients.

For the Consumer Bank customers Bank Handlowy activated Send Cash (*Wyślij Gotówkę*) service, which operates in the same way as the Electronic Postal Cash Transfers offered to corporate clients. The service allows for simple and safe transfer of cash by individuals to any place throughout Poland.

Direct Debit

In the first half of 2008 the Bank registered 7% increase in the volume of direct debit served transactions compared to equivalent period of the year 2007. The Bank's market share stands at 40%. It is the Bank's priority to further increase recognition of Direct Debit among payers as a safe and comfortable form of settling payments. As it pursues that strategy the Bank launched the innovative and unique product that Comfort Direct Debit constitutes. This new solution represents a functional expansion of the Bank's current offer to include mobile technology, which involves notification of payers by their creditors of the approaching Direct Debit payment dates in the form of SMS messages. At reception of relevant notice, the payer can postpone execution of their Direct Debit by sending appropriate response message. The new service is highly consistent with the Bank's strategy of launching mobile payment products.

As a member of the Coalition for Direct Debit the Bank actively cooperates with other market participants with the aim of developing the product further. One recent initiative of the Coalition includes a project aimed at replacing paper-based approvals exchanged between banks with electronic form approval messages. The joint work will lead to development of a platform for exchange of electronic approvals.

Speedcollect

In the first half of 2008 Speedcollect was expanded to include a new functionality. Previously the product supported only domestic mass payments. Starting with this period the Bank is able to settle mass payments in currencies. This applies to both oversees payments and internal domestic settlements in foreign currencies.

3.1.2 Trade Finance Products

In the first half of 2008 the Bank continued actions aimed at intensifying sales, improving efficiency and reducing loan loss risk.

The Bank redesigned the operational model for servicing trade finance products. The expected savings will be a factor improving the product profitability. An initiative was undertaken with the aim of better utilising the global resources of Citigroup in this respect. The highly developed Citigroup network is going to be used as a platform for expansion of trade finance services, particularly for increasing the number of the letters of credit (L/Cs) notified via the Citigroup network.

In the first half of 2008 the Bank registered 5% growth in the number of completed transactions of all types of factoring compared to equivalent period a year earlier. Major part of that growth comes from over fourfold increase in the number of transactions and value of no recourse factoring financings (and particularly of the Supplier Financing Programs).

The most noteworthy trade finance events and achievements of the first half of 2008 included:

- strengthening the Bank's position as the leading service provider in supplier financing in Poland as reflected in an increase in the number of service programs and growth in the number of the serviced suppliers. In the first half of 2008 the Bank implemented a supplier financing program for one of the world's leading retail network;
- granting of a customs guarantee to one of the world's largest courier service firms;
- issuance of an import letter of credit to one of Poland's biggest chemical companies;
- issuance of an import letter of credit to one of the biggest nitrogen fertiliser and plastics manufacturers;
- acceptance of export letters of credit for one of the world's biggest steel manufacturers;
- launch of a trade receivables discounting program for a telecommunication services leader;
- intensification of Supplier Financing Programs, resulting in closing of 38 true factoring agreements;
- confirmation of an L/C for a global telecommunications and IT leader;
- underwriting a securities issue for a multinational machinery engineering manufacturer; and
- issuance of a series of L/Cs for leading companies and institutions, particularly representatives of steel, crude and cosmetics trading sectors.

3.1.3 Custody and Depositary Services

The Bank provides custody services on the basis of Polish regulations and in compliance with international depositary service standards, and thus meets the requirements of the largest and most demanding institutional clients.

The Bank is a market leader among depositary banks in Poland. It offers custody services to foreign institutional investors as well as depositary services to domestic financial entities, particularly pension, investment and insurance (the funded pillar) funds.

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

The Bank also processes transactions closed by corporate customers on the electronic trading platform for 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 continue to note evident increase in interest of foreign brokers in the product intended for remote members of the WSE, which can be expected to translate into greater volumes of transactions settled by the Bank in the coming years.

Over the period 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 Bank's experts have worked to develop capabilities for implementation under Polish legal system of the concept of an omnibus account, which would operate at the level of NDS participants and on new legal solutions for securities loans and short sale. When finalised, the projects mentioned here for illustrative purposes are going to contribute to aligning the Polish market practices with the international standards. The Bank cooperates with the Polish Financial Supervision Authority, NDS and WSE at introduction of new systemic solutions.

As at 30 June 2008, the Bank maintained 12,354 securities accounts.

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

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

and two Employee Pension Funds:

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

The Bank also acted as the depositary of 39 investment funds and sub-funds managed by the following Investment Fund Companies:

- BZ WBK AIB TFI S.A.
- PKO TFI S.A.
- SEB TFI S.A.
- PIONEER PEKAO TFI S.A.
- LEGG MASON TFI S.A.
- GE Debt TFI S.A.

3.1.4 EU Office

In the first half of 2008, the EU Office conducted a promotion and information campaign that focused on the new EU 2007–2013 funding programming period. The campaign was addressed to the Bank's current and potential clients. The Bank's representatives participated in a automotive sector conference at which the EU Office presented the opportunities for financing automotive sector investments with grant funding available under the 2007-2013 programming period.

Representatives of the Bank participated in a series of regional conferences devoted to the issues of improving operational efficiency of local government administration and to effective methods of delivery of social and unemployment benefits. The seminars brought together representatives of Second Tier Local Government Labour Offices and Municipal Social Assistance Centres.

In the context of the same campaign, the Bank's representatives took part in a series of regional conferences devoted to corporate social responsibility and the role of EU funding in advancing voluntary employee activity. The seminar participants included representatives of regional self-government administrations and entrepreneurs of respective voivodships.

The EU Office also organised participation of the Bank's representatives in Expert Days held at the Warsaw School of Economics. The Expert Days events focused on the opportunities for appropriation of the EU funds earmarked for business start-ups, operation and development.

In its Krakow and Kielce branches the Bank held EU Advisory Open Days. These were aimed at disseminating information on the ways and means of fundraising for own investment projects, including adsorption of EU funds. The campaign was addressed to small and medium enterprise sector firms, with close to 100 regionally based firms participating.

The Bank's priorities include its expansion into financing of EU co-funded investment project and expansion of its advisory services offer addressed to the Bank's potential clients, representing both the private enterprise sector and the public sector. In the context of implementation of this EU strategy Bank Handlowy w Warszawie S.A. and Kreditanstalt für Wiederaufbau signed a Municipal Finance Facility, the 2nd agreement on implementation of a program addressed to Polish self-governments. The agreement provides for support of the Bank with EU funds in subsidised funding of territorial self-government units.

As EU funds for enterprises became available, the Bank commenced relevant advisory and information campaign among its clients. This resulted in closing of a series of new advisory agreements.

3.2 Treasury

In the first half of 2008, the Bank strengthened its position of leadership in the market of foreign exchange transactions with non-banking customers as it pursued the chosen strategy of selling this product in a consistent fashion. Whilst volumes remained stable, the Bank's revenues increased by nearly 20% and the number of active clients increased by nearly 8% as compared with the equivalent period a year earlier.

The interest of clients in the Bank's internet platform dedicated to execution of FX transactions continues to grow as they appreciate the access it affords them to attractive prices and multiple forms of hedging of their FX exposures. The internet platform has proven to be an excellent tool for acquisition of new clients as testified by approximately 65% raise in the number of active accounts as compared to equivalent period in 2007. Efficacy of the chosen strategy is also borne out by the 130% plus growth in transaction volumes as compared to the first half of 2007.

Clients ever more frequently take advantage of futures and options transactions for the purpose of hedging their FX risk exposures. Trading in this product increased by nearly 50% YOY. Growth in the number of active clients and revenues on futures and options transactions also confirm the consistently strengthening position of the Bank in the FX derivatives market.

Also worth underscoring is the field of complex derivatives in which trading handled by the Bank rose by 7% in the first half of 2008 as compared to the first half of 2007.

3.3 Commercial Banking

The Bank is the leader of the commercial banking market in Poland. Its share in total corporate loans at the end of the first half of 2008 did not change as compared to the end of 2007 and stood at 4.2% while its share in total corporate deposits was 8.2% as compared with 8.5% at the end of 2007. The Bank's share in short-term debt securities issues measured in terms of total issued debt rose substantially to 20.3% as at 30 June 2008 from 15.8% as at 31 December 2007.

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 the first half of 2008 the Bank continued to provide 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 relations with new dynamic Polish companies, leaders in their respective sectors.

The noteworthy transactions of the first half of 2008 included issuance of a 5-year bond for TVN S.A. with total nominal value of PLN 500 million, with June 2013 redemption date. The issue constitutes the first tranche of a Bond Issue Program of PLN 1 billion. Its purposes include early partial or full repayment of a 10-year Eurobond issued in 2003 and financing of general corporate goals, in that acquisition of a 25% interest in the "n" digital television platform. The Bank acted as the transaction Co-arranger.

3.3.2 Commercial Bank

Through the Commercial Bank we serve entities with annual revenue in excess of PLN 8 million and up to PLN 1 billion, corporates with global relations with Citigroup, self-government entities and courts.

In the first half of 2008 the Commercial Bank serviced accounts of approximately 7.8 thousand clients, as compared to approximately 25 thousand entities operating in the entire Polish market that meet the abovementioned criterion.

The Bank serves this large and diverse group of clients though its customer service model that covers three main customer service segments: Small and Medium Enterprises (SMEs), Large Enterprises (Middle Market Enterprises or MMEs) and the Global Clients segment. The Commercial Bank also serves territorial self-government units (Public Sector) through the branch network.

Within the SME segment the Commercial Bank serves clients with annual sales of PLN 8 million to PLN 75 million, within the MME segment those with annual sales of PLN 75 million to PLN 1 billion whilst within the Global Clients segment it provides services to clients with global relations with Citigroup (typically daughter companies of multinational corporations).

The Commercial Bank operates a network of 18 dedicated corporate centres located in the country's main commercial centres. Additionally, substantial part of the Bank's retail network is equipped to serve corporate clients. In total, clients of that segment are served by 120 branches throughout Poland.

The first half of 2008 was yet another period in which this customer service model – that allows for more individualised service of companies within the respective client segments and for achievement of a better fit with the clients' broad product needs – yielded excellent effects:

- *Growth in the number of newly acquired clients*

As a result of a number of marketing campaigns, such as Online Trading or Supplier Financing Programs, addressed to preselected groups of potential clients, the Bank was able to acquire in the first half of the year 634 new clients (62% of that number directly through the mentioned marketing campaigns).

Number of acquired clients*

	first half of 2008	first half of 2007	Change	
			Number	%
Number of clients/companies acquired in a given period	634	617	17	2.8%
% of clients actively cooperating with the Bank	53.8%	44.2%	9.6%	21.7%

** excluding Global Clients*

- *Sustainable asset growth based on optimisation of effective employment of committed funds*

As at the end of the first half of 2008 the Commercial Bank registered 11.2% raise in assets as compared to asset balances as at the end of the first half of 2007, with the SME segment expanding by 13.4%, the MME segment by nearly 25% and the Public Sector by as much as 41.4%.

Noteworthy are also the Commercial Bank's activities in the following business areas:

- Trade finance products: In the first half of 2008 it continued actions aimed at intensifying sales and improving effectiveness, and reduction of credit risk, which led to a 5% growth in the number of factoring transactions of all types as compared to equivalent period a year earlier. Large part of that growth came from over fourfold growth in the number and value of funded no recourse factoring transactions (particularly within the Supplier Financing Programs); and
- leasing transactions: Growth in the number of leasing agreements executed in the first half of 2008 reached 13% as compared to equivalent period of 2007.

PLN '000		first half of 2008	first half of 2007	Change Amount	%
Total Commercial Bank		**7,400,103**	**6,653,392**	**746,711**	**11.2%**
Including:					
	SMEs	897,337	791,435	105,902	13.4%
	MMEs	1,845,589	1,477,933	367,656	24.9%
	Public Sector	78,092	55,232	22,860	41.4%
	Global Clients	3,755,254	3,688,684	66,570	1.8%

- *Dynamic growth in balances of current and term deposit accounts of the Public Sector*

As at the end of the first half of 2008 the Commercial Bank registered dynamic growth of nearly 85% in balances of current and term deposit accounts as compared to the end of the first half of 2007, primarily a result of numerous conferences and meetings promoting MicroPayments, the new transaction banking product offer that were addressed to courts and prosecution administrations, which allows these institutions to calculate and charge court deposit and bail interest at individual case level.

Total deposits of the Public Sector

PLN '000		first half of 2008	first half of 2007	Change Amount	%
	Public Sector	1,583,564	856,580	726,984	84.9%

- *Volume growth in FX transactions*

The innovative FX transactions distribution channel (referred to as OLT) combined with the available FX risk hedging products contributed in the first half of 2008 to a 32.5% growth in value of foreign exchange transactions executed by the SME clients and a 175% growth in transactions of the Public Sector.

Volume of FX transactions

Millions		first half of 2008	first half of 2007	Change Amount	%
	SMEs	7,119	5,374	1,745	32.5%
	Public Sector	963	350	613	175.0%

- *Other key initiatives in the first half of 2008*

The Commercial Bank launched another supplier financing program with a leading hypermarket chain in Poland, with the resultant acquisition of 19 new client.

Within the MME segment, the Commercial Bank closed a number of new fund management agreements. The number of clients the actively cooperate with the Bank rose to 26.

The Commercial Bank ran a promotion and information campaign on the new 2007-2013 EU funding period and the use of EU funds.

As EU funds for enterprises became available, the Commercial Bank continued relevant advisory and information campaign among its clients. This resulted in closing of a series of new advisory agreements.

In the field of new liquidity management solutions for the Global Clients segment, the Commercial Bank put in place initial client tailored structures of actual cash pooling. As a result of implementation of the actual cash pooling structures at the end of each working day the negative balances of the structure participants are replenished to zero whereas surpluses on the accounts of the remaining participants are booked to a single designated account.

In the first half of 2008 corporate client service model entered the final stages of implementation. The model aims to maximise corporate service platform efficiency and general operational efficiency, which, among others, refers to the launch of an integrated service platform for microenterprises and companies with annual turnover of up to PLN 75 million, which enables full and dynamic cooperation with MMEs and SMEs.

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 first half of 2008 DMBH acted as an intermediary in 12.46% of secondary equities trading transactions. This gives it the position of leadership in terms of the scale of trading among the securities brokerage houses active in the Polish market. Value of equities trade executed via DMBH on WSE reached PLN 21,247.86 million (growth of 1.08% as compared to equivalent period a year earlier) while trading over the entire WSE market declined by 30.32% compared to equivalent period a year earlier.

The number of investment accounts maintained by DMBH as at the end of the second quarter of 2008 stood at 9,970.

As at the end of the first half of 2008 DMBH performed the role of the Market Maker for 38 companies, which represented 10.4% of all the equities traded on WSE. Additionally, the Own Investments Section is the Market Maker for futures and options contracts for the WIG20 index and MW20 index units. The companies DMBH serves as the Market Maker include foreign entities with parallel listings on their markets of origin (MOL and ORCO Property Group).

In the first half of 2008 DMBH conducted two public offering of shares. In January it competed new share issue (rights issue) for ELEKTROBUDOWA S.A. of PLN 89.7 million while in March it organised a merger related offering of G series shares of Inter Cars S.A. of PLN 201.6 million addressed to shareholders of JC Auto S.A. Estimated market share of DMBH in the equity offerings market is estimated at approximately 3%.

In February 2008 DMBH acted on behalf of Goodyear in announcement of buyback of shares of FO Dębica S.A. The call closed with 82.87% oversubscription. The transaction value stood at PLN 101.7 million.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company equity	Total assets as at 30.06.2008	Equity as at 30.06.2008	1H 2008 net profit/loss
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100,00	631,740	86,572	4,132

** 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.

As at 30 June 2008, value of leasing receivables reached PLN 1,219.3 million, which represents a 12% growth as compared to leasing receivables, as at 31 December 2008.

In the first half of 2008, the Group closed 2,857 agreements (in an amount of PLN 395.7 million), which represented growth of approximately 13% as compared to equivalent period in 2007 (with new agreements amounting to PLN 396.8 million); in line with the desired further portfolio diversification.

The structure of assets in leasing in the first half of 2008 was as follows:

- portfolio continues to be dominated by heavy transport vehicles, which currently constitute 53.3% of total financed movables;
- share of personal cars in the structure of leased vehicles rose substantially: from 5.2% in the first half of 2007 do 18.4% (near PLN 50 million in the first half of 2008); and
- value of leased machinery and equipment, as at the end of the first half of 2008, stood at PLN 124.9 million and was nearly identical as in equivalent period a year earlier.

Value of new lease agreements

PLN million	first half of 2008	first half of 2007	Change %
Value of leases contracted in the period	395.7	396.8	0.3
- for vehicles	270.6	267.9	1.0
- for machinery and equipment	124.9	127.5	(2.0)

Slowdown of the previously rapid rate of NAV growth results from weakening of demand in the transport vehicles market, particularly in the articulated vehicles, tractor units and semitrailers segment.

In order to balance out the declines in the articulated vehicles sector, the Group had undertaken actions aimed at penetration of the machinery, equipment and personal cars market, such as participation in events organised by suppliers for their clients, presence at all the important trade fairs (among others, Plastpol, Machtool, Budma, Autostrada) and structuring of joint offers with suppliers.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company equity	Total assets as at 30.06.2008	Equity as at 30.06.2008	1H 2008 net profit/loss
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	1,262,371	179,083	5,807

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

4. Consumer Bank

4.1 Credit Cards

In the first half of 2008 the Bank acquired over 133,000 new credit cards while total number of issued credit cards, as at 30 June 2008, exceeded 927,000. The Bank once more retained its position of leadership in terms of card transaction value and customer debt balance while the Citibank Credit Cards remained the most frequently used cards in the market.

The first half of the year 2008 was a period of dynamic growth of the co-branded cards portfolio, particularly of Citibank-BP Credit Cards, Citibank Plus and Citibank LOT. In it the Bank acquired a record number of over 56,000 Citibank-BP Credit Cards, thus increasing the portfolio of these cards to over 215,000 making these the strongest co-branded card in the market. Sales of Citibank-Plus Credit Cards and Citibank LOT Credit Cards, which were brought to the market a year ago, also grew at dynamic rates. Total portfolio of both these credit cards reached over 108,000 and the Bank strengthened its position of leadership in the Polish co-branded cards market.

The first half of the year 2008 brought the expected results of a joint promotional campaign with BP aimed at encouraging acquisition of BP MotoCards and registration in the BP Partnerclub loyalty program. As part of the campaign, representatives of the Bank conducted active sales of cards through over 140 BP petrol stations and acquired over 9,000 Citibank BP cards.

In the first half of 2008 the Bank also achieved major success in the Discount Program, which includes over 3,000 vendor establishments throughout Poland, in which all holders of Citibank Credit Cards can receive discounts of up to 50% on purchases made with their cards. The Program acquired other well-known brands, among others, Troll, Olimpia and the most popular global car rental firms Europcar and Sixt.

4.2 Consumer Bank

The Bank's share in the retail loans market (excluding mortgage loans) decreased slightly to 4.9%, as at the end of the first half of 2008, from 5.1%, as at the end of 2007. Inclusive of mortgage loans, the market share in retail loans remained at unaltered level as compared to 2.2%, as at the end of 2007. The Bank's share in the deposit taking market stood at 2.1%, as at the end of the first half of 2008, in comparison to 2.2% as at the end of 2007.

4.2.1 Bank Accounts

In the first half of 2008 the Bank concentrated its efforts on development of its deposit and account products offer and on growing its customer base, with particular attention to maintaining revenue discipline.

Over this period, the number current accounts grew by over 15% to exceed 526,000, including over 166,000 foreign currency accounts.

In January 2008 the Bank changed interest on the Citibank Savings Accounts to 5.05%, which further contributed to growth of its deposit base: at the end of the first half of 2008 funds collected on these accounts increased by 41% compared balances as at the end of the year 2007. At the same time, the Bank staff shared their expertise in the field of savings, among others, as they supported the Radio Zet organised debate entitled Keep the Change (*Reszta dla Ciebie*), which promoted the Bank's unique service with the same name.

Since the beginning of the year customers of the Bank can withdraw funds free-of-charge via eCard operated ATMs while the network of commission-free ATMs increased by over 20% and exceeded 1 700 throughout Poland.

The Bank renewed attractive combined deposit offers. Of particular benefit for the customers is the promotional offer (which lasts until the end of September 2008) combining the Global Investment Portfolio and the Investment Funds Portfolio with a uniquely high interest bearing deposit: either a 3-month Polish zloty deposit with 12% annual interest or a 6-month Polish zloty deposit bearing 9% annual interest.

The Bank also increased interest on term deposits closed in Citibank Online internet banking, with 12-month deposits bearing annual interest of 6.2%. This remains one of the highest interest deposits available on the market.

In the first half of 2008 the Bank continued special personal account promotions conducted for the purpose of acquiring customers who would have their salaries transferred to the Bank:: the CitiAccount Plus promotion and the CitiOne Direct promotion, which included the Kaspersky antivirus software license (offered free for one year).

On 17 June 2008 the Bank changed the Citibank Personal Account Interest Table. We increased interest for each of the segments on deposits in Pound Sterling to as much as 5.00% per annum, the highest interest in the market. The offer was addressed primarily to Poles living and working in the United Kingdom and those returning from the British Isles.

Citi Handlowy introduced an innovative Send Cash (*Wyślij gotówkę*) cash transfer service. Customers can order (also via the Internet) delivery of cash to designated addressees in Poland via postal orders. Cash will be delivered directly by the Polish postal service letter carriers.

In the first half of 2008 the Bank launched a new service Citigold Global Access. The service is available in over 500 Citigold Centres in 34 countries of the world and allows Citigold Clients easy and cost-free execution of transactions abroad. Citigold Clients can withdraw funds free-of-charge via over 700,000 ATMs worldwide in over 100 countries. The also have access to the Citibank World Privileges in over 40,000 outlets spanning over 40 countries.

At the end of June 2008 the Bank commenced a unique summer promotional campaign of its Citibank Personal Account and Citibank Credit Card. Under the watchword of Card for the Summer – Card for Years (*Karta na lato – karta na lata*), new customers who open a personal account in any branch of the Bank and obtain a Citibank Credit Card before the end of September 2008 will be offered permanent exemption from the annual credit card fee. The two qualifying conditions include: initiation of the first credit card transaction within 2 months of the issuance date and initiation of pay transfers to the personal account.

In the 12th edition of the EUROPRODUKT competition, the Bank was awarded six statuettes for the most innovative products in the European market, including its Keep the Change Savings Program and its offer addressed to Polish expatriates and their relations in the country.

In a ranking ran by Manager Magazine, which the Bank joined in June and the results of which were announced in the July issue, the Bank was chosen the leader in private banking in Poland and the leader in cards and investments funds. This confirms our strong position in these market segments.

4.2.2 Credit Products

Cash Loan

In January and February of 2008 the Bank launched CitiFinancial Cash Loan offer in all the retail product distribution channels. The competitive features of the new product include a high amount loan of up to PLN 120,000, lending period of seven years, rapid credit decision and the possibility of withdrawal of the loan in any branch. Implementation of the new loan was accompanied by optimisation of the sales model and of the systems supporting the credit decision and verification process. The products were further harmonised through introduction in all of the Bank's distribution channels of a uniform offer adjusted to the needs and expectations of the customers and aimed at expanding the target market. The new offer combines the best elements of its predecessors and uses the modern scorecard credit assessment model, which permits improved management of risks of specific customer profiles.

In the first quarter 2008 the Bank conducted a nationwide media campaign on all the major television channels that promoted a consolidation loan product with the name Good Bye to Multiple Instalments – Welcome to Cash (*Żegnajcie liczne raty – witajcie pieniądze*). In April the campaign was additionally carried by external advertising media. It supported marketing of a loan product for repayment of debt in other banks, thus enabling customers to pay a single lower instalment in Citi Handlowy and to acquire additional funds.

Between March and May of 2008 the Bank launched special price offers for selected customer segments. Customers applying for a loan via the Internet are charged 1% preparation fee while customers employed in one of the selected firms can be offered reduced interest loan within the Citibank at Work program.

Unsecured Credit Line

In the first half of 2008 the Bank conducted actions aimed at increasing sales of the Citibank Credit Line. The main support took the form of promotion of the Citibank Credit Line in which customers can receive a Credit Line with waived annual fee in the first year of use. The promotion continued until 23 June 2007 and enabled maintaining sales of the Credit Line at the level of pervious months.

In the first half of the year we continued working on adjusting the credit policy of the Credit Line and completed the process in June, when they came into effectiveness. In addition to changes in the credit policy of the Credit Line we introduced changes in the operational processes. As a result, we expect to increase effectiveness of the Credit Line approval process and substantial cutting down on the time to a credit decision.

The above measures increased attractiveness of the product and are expected to lead to substantial growth in sales of the Credit Line in the latter part of the year.

In parallel, the Bank increased sales of the Credit Line as it continued to market it through cross-selling.

Secured Credit Line

The product is primarily aimed at retention of customers and addressed to CitiGold customers. In the first half of 2008 the Bank introduced measures aimed at increasing attractiveness of the Secured Credit Line and worked on expansion of the acceptable collaterals. Plans provide for introduction of successive additional forms of collateral in the second half of 2008.

Mortgage Products

In the area of mortgage products the Bank continued in the first half of 2008 its Open Architecture strategy, meaning that it includes in its offer both proprietary mortgage products (the housing loan granted for purchase of a property on the secondary market or for repayment of a mortgage loan and the mortgage secured cash loan granted for repayment of the customer's debts or any other purpose) and mortgage products of selected external partners (Dombank, Nykredit, i.e. banks which specialise exclusively in mortgage products). The Open Architecture strategy provides for meeting the customers' needs and expectations in the best possible way. The Bank plans to continue with the Open Architecture strategy into the future: to maintain own products and to cooperate with external partners.

4.2.3 Investment and Insurance Products

a) Investment Products

In order to be able to offer its customers new possibilities of investment in the domestic and foreign markets, since the beginning of the year the Bank consistently expanded its offer of domestic and foreign investment funds, bringing their total number to over 150.

In the course of the first half of the year 2008 this offer was expanded to include 20 new foreign funds managed by reputable investment fund companies: Franklin Templeton Investment Funds and BlackRock Global Funds and 7 domestic funds managed by DWS Polska TFI S.A. available within newly formed umbrella funds.

The new products in the Bank's offer include for the first time funds denominated in PLN dedicated to such topics as BRIC, Climate Change, Infrastructure and IT Sector, Export Companies and Real Estate and Construction Sector with global investment spectrum.

Of particular note is the newly introduced first foreign fund offered in PLN with an FX hedge: Templeton Global Return PLN-hedged.

In the course of the first half of the year the Bank collaborated with representatives of the investment funds industry, fund managers in Poland and overseas, conducted intensive training for its advisers, focused on investment products now forming part of the Bank's offer; supported through regular branch based meetings and conference calls.

Additionally, we held a series of seminars for our customers, which were devoted to the topic of funds, their investment strategies and the problem of diversifying assets. The meetings were conducted by product specialists and fund managers.

Structured Products

On the back of the success of the earlier series of Investment Life Insurance issues, including the New Energy and BRIC, in the first quarter of 2008 the Bank conducted subsequent subscriptions for products of this type:

- In January and February – Agricultural Products and Water subscriptions, with the Bonus the customer is entitled to at the end of the insurance coverage period dependant on value growth of the Basket, which is comprised of futures contracts for delivery of agricultural commodities (wheat, corn, soybean) and S&P Global Water Index EUR (an index based on shares of 50 leading and largest companies involved in water related businesses);
- In March and April – Gold and Platinum subscriptions, with the Bonus dependent on performance of gold and platinum prices; and
- In May and June – Climate Change subscriptions, with the Bonus dependent on value evolution of a basket comprised of 40 enterprises involved in recovery and limiting consequences of climate change.

Investment Life Insurance products also formed part of promotional offers together with high interest term deposits, including: 6% and 7% in the case of 6-month deposits, 7% and 8% in the case of 3-month deposits.

Also, in June the structured products offer was expanded to include a four-year luxury goods linked structured bond. The Luxury Goods Structured Bond was being made available in a public offer (subscription continuing through to 25 July 2008). The product, which will be traded on WSE under the Luxury Goods name, has Barclays Bank PLC as its issuer and DMBH as the issue organiser. The issue subscriptions were accepted by the DMBH customers service points and the Subscription Acceptance Points located in the Bank branches.

This new product enables indirect investment in 10 luxury goods manufacturers, with guaranteed return of the invested capital at bond redemption. The bond is tradable at current market price, which provides for liquidity of the invested funds.

In the course of the first half of 2008 sales of structured products grew substantially. Within the 6 months customers received an offer of approximately 60 structured bonds. The bonds were offered in PLN, USD, EUR and GBP for periods of between 1 year and 5 years and were linked to various indices (CECE Index, WIG20 Index, iShares MSCI Brazil Index) and prices of commodities (basket of agricultural products, crude oil), currencies (BRIT – Indian rupee, Brazilian real, Russian ruble, Turkish lira) and the interest rates market (LIBOR USD).

b) Insurance Products

Credit Insurance

In the first half of 2008 the Bank expanded insurance protection within the CreditShield insurance offered to holders of Citibank Credit Cards. The change introduced as of 1 March 2008 provides additional benefits paid out in case of death in an Accident, which occurred in a period when the Insured is retired before completing the 65th year of life.

The Bank also launched the CreditShield Plus insurance, which provides coverage against the events of Death of the Insured, Permanent and Complete Inability to Work (Disability), Death in an Accident (with coverage equivalent to CreditShield, except that the amount paid to the Survivor is doubled) and against the Loss of Employment risk.

Life Insurance

Since 10 January 2008 holders of Investment Portfolios are able to change their insurance policy agreements into Global Investment Portfolio agreements. Such a change permits customers to invest into 15 different foreign fund products which were added to the Global Investment Portfolio on 10 August 2007.

On 17 January the Bank launched a new offer linking Global Investment Portfolio and Foreign Funds Portfolio products with term deposits. Customers who bought these products by 30 June 2008 were able to open a 6-month deposit with 9% interest a year. As at 30 June the Bank decided to extend this promotional offer on largely similar terms until 30 September 2008.

As of 31 January 2008, 23 new funds were added to the EUR/USD Foreign Funds Portfolio, including 11 funds of Schroder Investment Management, a newly added investment funds company. With the enriched offer, our customers can now invest into 26 fund products of the EUR Foreign Funds Portfolio and another 23 of the USD Foreign Funds Portfolio.

As of 19 February 2008 the Bank introduced new life insurance linked to insurance capital funds and based on a flat monthly premium: referred to as the Investment Program Plus. This is an insurance policy with regular premiums, under which customers have the opportunity of investing into 45 funds, including 15 foreign funds. There is no obligation of withholding capital gains tax at transfers between funds. The insurance policy guarantees reimbursement of the paid up capital in case of death of the insured party. The insurer is AEGON TU na Życie S.A.

Sales of the Investment Program Plus between March and June were a major success with some 900 insurance policies sold.

In May 2008 the Bank relaunched sales of the Safe Way accident insurance dedicated to selected Citibank Credit Card holders, as a result of which over 20% of the customers presented with the offer took out the insurance.

Insurance Policy for Good Life Savings Program – Life Insurance and Retirement Insurance was modified in the second quarter of 2008. The changes involve, among others, introduction of an additional 25-year insurance period, extension of the age in which the insurance can be taken out, enabling transfer of insurance policy and automatic insurance policy indexation. The changes came into effectiveness as of 1 July 2008.

4.2.4 Electronic Banking and Other Remote Service Channels

In the first half of 2008 the Bank completed the second phase of migrating its retail customers to its new Java Financial Platform.

We launched the More Trees Thanks to You (*Więcej drzew dzięki Tobie*) campaign promoting electronic statements, a partnership program of Citi Handlowy, the Leopold Kronenberg Foundation and the Our Earth Foundation. Within it Citi Handlowy plants a tree on behalf of each customer who chooses the Online Account Statement service. So fare we have planted over 40,000 trees. As at the end of June 2008 the Bank had over 213,000 registered users of this service as compared to some 136,000 at the end of the year 2007.

The Bank's customers using Citibank Online enjoy a comfortable and fast way in which to make electronic fund transfers for purchase of participation units in domestic investment funds. With the new functionality customers can compare unit yields and monitor their valuations on line, with access to a diversified offer of four Investment Fund Companies: Legg Mason TFI, DWS Polska TFI, ING TFI and Union Investment TFI.

4.3 CitiBusiness SME Banking

In the first half of 2008 CitiBusiness continued to develop its product offer with the aim of achieving the best possible fit with the needs and expectations of its clients. As a result of this effort, the CitiBusiness product offer was enriched to include a number of new items, including:

- Corporate Savings Account
- Prepaid Charge Cards
- Omnibus credit line
- Closed Pledged Payments.

At the same time we commenced work on development of attractive services packages for the more numerous customers groups and thus launched:

- CitiBusiness for Starters (*CitiBusiness na Start*), a proposal for business start-ups
- a package of services for housing cooperatives.

Clients learned of the new products and offers through broad media advertising campaigns including radio, television, press and Internet.

Much effort also went into upgrading internal processes, streamlining documentation and improving customer service. Efficacy of all of the abovementioned adjustments is reflected in the numerous awards and honourable mentions which CitiBusiness received in the course of these initial 6 months of the year and in the substantial influx of clients (over 2,750 clients over 6 months or 30% more than in the first half of 2007). As a result revenue generated in CitiBusiness segment grew systematically.

5. Achievements of Respective Sales Channels

5.1 Branch Network

In the course of the first half of 2008 the branch network size did not change significantly. Rather the Bank concentrated its efforts on increasing effectiveness of the existing outlets.

As of 1 January 2008 we reintegrated the branch networks of the Corporate Bank, the Consumer Bank and CitiFinancial with the aim of achieving a number of benefits for both the Bank and its customers and clients.

As at 30 June 2008 the branch network consisted of 241 outlets, including the Corporate Bank branches, the Consumer Bank and those operating under the CitiFinancial brand. The CitiFinancial outlets include 17 which are the CitiFinancial authorised service outlets, at which clients can submit applications for cash loans the Bank offers. The number of the CitiFinancial service points increased by 5 in the first half of 2008, including: Chojnice, Szczecinek, Lębork, Starogard Gdański and Kwidzyn. Currently the CitiFinancial branded network includes 117 outlets, including 100 own branches.

In the first half of 2008 the Bank continued the One Branch Network project, which included marketing of personal accounts though selected CitiFinancial outlets, which previously concentrated exclusively on servicing credit products. In the following quarter of the year marketing of personal accounts will be rolled out to subsequent CitiFinancial outlets while further plans include account handling services.

In the first half of 2008 within the framework of the Branch Network Optimisation Project:

- the Senatorska 16 branch in Warsaw was expanded to include additional CitiGold zone
- the consolidated branches in Zabrze and Rybnik were expanded and reopened for the clients
- the consumer branch in Zielona Góra was expanded and reopened for the clients

Number of branches as at period end

	first half of 2008	first half of 2007	Change
Number of outlets:	**241**	**236**	**+5**
Consumer Bank	**86**	**86**	**No change**
Multifunctional outlets	71	72	(1)
CitiGold Wealth Management	14	13	+1
Investment Centre	1	1	**No change**
- of which serving Corporate Bank clients	84	82	+2
CitiFinancial	**117**	**111**	**+6**
Branches	100	99	+1
Agencies (partner outlets operating under the CitiFinancial logo)	17	12	+5
Corporate Bank	**38**	**39**	**(1)**
- of which serving Retail Bank customers	38	30	+8
Other sales / customer service outlets:			
Mini-branches (within “Citibank at work”)	6	1	+5
BP petrol station sales points	131	47	+84
Supermarket stands	3	6	(3)
Number of own ATMs	163	154	+9
- including those with the deposit function	153	154	(1)

In summary, as at 30 June 2008:

- Corporate Bank clients were served by 122 outlets
- Retail Bank customers were served by 124 outlets; and
- CitiFinancial customers were served by 117 outlets.

5.2 Internet and Telephone Banking

Upgrading of processes and adaptation of products for the needs of customers in remote relationship with the Bank led to introduction of a faster and simpler processes of personal account and credit line activation for the existing customers and expansion of collaboration with a firm hired to collect the customer signed documentation required for opening of an account or a credit line.

As compared to equivalent period of 2007 the CitiPhone customer service team registered growth in sales of the Comfort Instalment Payment Plans, the debt balance conversion, the overdraft Credit Lines, the Cash Loan and increase in activations of Citibank Online and electronic account statement facilities, with simultaneous retention of high levels of sales of other key products.

In the field of credit cards the Bank implemented a process involving activation of the Citibank Credit Card at issuance of the card to the customer with attendant offering of additional products, such as insurance, investment products and electronic account statements.

In the first half of 2008 the Bank also implemented a new outsourcing agreement, which involves offering Citibank-Plus Credit Cards to potential customers on behalf of the Bank. In the same period we also negotiated another such agreement, which implementation happened in July 2008.

The CitiBusiness account opening process involves CitiBank Online Trading, a unique internet FX trading platform. Record revenue was registered in sales of the CitiBusiness account. The number of the CitiBusiness accounts opened in the first half of 2008 was 37% higher than in the entire 2007.

5.3 Acquisition and Retention

With in the Citibank at Work we acquired in the first half of 2008 over 10,000 new customers, which represents a 30% growth as compared to the first half of 2007.

Also worth outlining are the sales of the Credit Card in the first half of 2008, which reached 8,000 and which represented a 222% growth against the Credit Card sales in the second half of 2007.

Direct and Indirect Sales Office

Each direct sales channel offering credit cards via Rigall, Rotsa and DSA agencies achieved spectacular sales results in the first half of 2008. All direct sales agencies together sold total of 61,400 credit cards, which represents a 38% growth as compared to equivalent period a year earlier. Worth underscoring is the fact that the result was achieved at reduced card acquisition costs. Since 2008 all of the agencies began selling personal accounts.

6. Changes in IT

The IT projects are undertaken with the aim of optimising processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the Bank's regulatory environment.

The most important project implemented in the first half of 2008 within the Operations and the Technology divisions was the One Bank project, which was undertaken for the purpose of exploiting the potential synergies achievable through integration of the Operations and Technology structures, the Corporate Bank and the Consumer Bank, namely upgrading customer service quality and reducing the Bank's operating costs. A strategic decision of merging the operational and the technological units into separate divisions was adopted. The project identified both unique processes as well as the processes requiring streamlining within both the Operations and the Technology divisions.

In the first half of 2008 the following solutions that influenced the development of a leading-edge product range, improvement of its quality and efficiency, and reduction of its cost were introduced:

- Implementation of a system that improves efficiency and speeds up the unified cash loan decision and authorisation process in all the Consumer Bank branches as well as the credit verification team (ECUS - Cash Loan);
- Implementation of Send Cash (*Wyślij Gotówkę*), an innovative functionality enabling ordering and automated dispatch of cash funds through a postal order in CitiPhone outlet;
- Modifications enabling presentation of investment funds on the internet platform;
- Implementation of FlexCube, an automated FX functionality in the Bank's main transaction system;
- Transfer of the production environment of the RCS application on to a new hardware platform, which led to substantial increase in productivity of the RCS electronic banking;
- Automation of booking incoming foreign transactions;
- Material modifications to the UWS application, which contributed to cutting on the customer service time in the branches and CitiPhone in a substantial way; among others streamlined processing Sorbnet transactions.

7. Equity Investments

All capital exposures of the Bank are classified as part of either the strategic or the divestment exposures portfolios. In the first half of 2008 the Group 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 Group 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., and special purpose investment companies used by the Bank for execution of capital transactions, specifically 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.

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.

On 23 April 2008 Moody's notified the Bank on a change of the prospect for rating of long-term domestic currency deposits: from stable to negative. This change was a consequence of the Moody's decision to reduce the rating of the perspective of the financial strength of Citibank NA to negative. The agency maintained the stable perspective for the rating of the financial strength of Bank Handlowy w Warszawie S.A.

To sum up, as at 30 June 2008 the Bank had the following ratings awarded by Moody's:

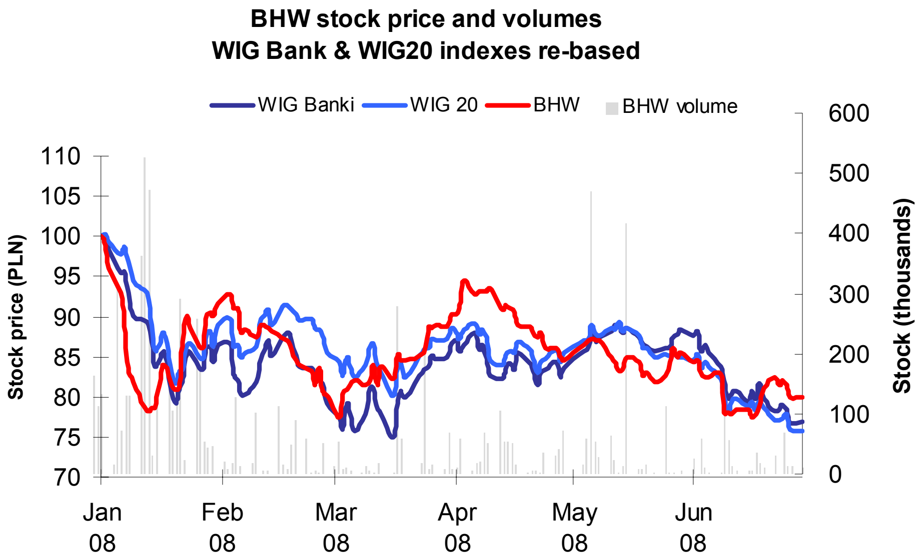
Rating for long-term deposits in the domestic currency	Aa3
Rating for long-term deposits in foreign currencies	A2
Rating for short-term deposits in the domestic currency	Prime-1
Rating for short-term deposits in foreign currencies	Prime-1
Financial condition *Perspective for financial strength rating* *Perspective for rating of long-term domestic currency deposits*	C- *Stable* *Negative*

8.2 The Bank's Performance on the Warsaw Stock Exchange

In the first half of 2008 the price of the Bank shares on WSE fell by 20%, from PLN 100.0 (2 January 2008) to PLN 80.0 (30 June 2008). Market price remained relatively stable over the period: it oscillated in the range of PLN 77.5 and PLN 100.0.

In spite of the declines in early January, the market price began to recover the losses rapidly and by 4 February it reached PLN 92.8 per share, to succumb to the general wave of market pessimism. The price reach another peak on 4 April, at PLN 94.5 per share.

As compared to performance of the other companies forming part of the WIG Banks index (the sub-index lost 24.4%), the market price of the Bank registered one of the smallest declines in the sector, in which share price declines of individual entities reach close to 50%. The Bank stock also outperformed the WIG20 index, which registered a decline of 25%.



8.3 Interest rates

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

As at 30 June 2008:

%	Corporate Bank			Consumer Bank		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivable from financial and non-financial sector entities						
- fixed term	6.97	5.69	3.01	18.98	5.70	7.40
Debt securities	5.43	3.63	4.27	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	5.28	4.15	2.26	5.05	3.54	2.05

As at 31 December 2007:

%	Corporate Bank			Consumer Bank		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivable from financial and non-financial sector entities						
- fixed term	5.77	5.59	5.06	19.63	6.75	9.05
Debt securities	5.29	3.57	4.83	-	-	-
PASYWA						
Payable to financial and non-financial sector entities						
- fixed term	4.36	4.52	5.03	4.21	3.36	3.92

8.4 Awards and Honours

In the first half of 2008 Bank Handlowy w Warszawie S.A. and the Leopold Kronenberg Foundation received a number of prestigious honorary titles:

- The Bank was honoured with the emblem of the Entrepreneur Friendly Bank in the 9th edition of the competition organised by the Polish Chamber of Commerce and the Polish-American Advisory Foundation;
- The Bank's Reserved Account received awards in the 12th edition of the EUROPRODUKT competition;
- The Bank's Comfort Direct Debit received awards in the 13th edition of the EUROPRODUKT competition as an innovative receivables management product for corporate clients;
- According to a ranking prepared by Manager Magazine, the Bank is a leader in private banking in the Polish market. The Bank took the first place in the Private Banking Leaders category as well as the Cards and the Investments categories.

8.5 Engagement in Cultural Patronage and Corporate Social Responsibility Projects

Corporate Social Responsibility

The Bank has pursued its mission of social responsibility via the Leopold Kronenberg Foundation, a charitable institution which supports on the Bank's behalf various public benefit activities. In the first half of 2008 the Foundation focused its efforts on such areas of interest as: economic education and promotion of entrepreneurship, and initiation and coordination of own employee volunteer projects addressed to the socially disadvantaged as well as those aiming at preservation of cultural heritage.

The Leopold Kronenberg Foundation acted as the sponsor of some of the most influential programmes of economic education in Poland:

From a Grosz to a Złoty (*Od grosika do złotówki*) – the first Polish financial education programme for pupils of primary schools executed in the context of integrated learning in collaboration with the Foundation of Entrepreneurship of Young People. It will be run jointly by teachers and volunteers from the Bank with collaboration of the parents. The programme is intended to help children develop habits of saving money, developing their awareness of the value of work, learning what money can be used for and preparing children for the task of rational shopping decisions. The programme is comprised of two parts: the second form primary school children are involved in the educational module, which takes the form of a journey through the Finance Galaxy, while the third form primary school children are involved in a day-long workshop devoted to the topic of saving, which is entitled Grosz Journeys. The programme is currently under implementation, with teacher training in progress.

My Finances (*Moje Finanse*) – the largest Polish economic education programme addressed to pupils of higher secondary level schools conducted in cooperation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People. Since November 2007 the programme commenced its second edition, with the educational curriculum expanded to also include the parents. In its new release – expected to runt until 2010 – the programme will have doubled in its scope to reach some 450,000 students.

Within the framework of the programme and in collaboration with the Gazeta Wyborcza daily, we organised the My Finances – from the Class to a Teller Window competition, with the aim of assisting the students in acquiring the skills of making reasonable financial decisions. Over 70,000 pupils of lower and higher secondary schools participated in it to date.

Banks in Action (*Banki w Akcji*) – a continually developing economic education programme addressed to higher secondary school students with broader knowledge in finance and banking. It takes the form of a course in management that provides knowledge and opportunities for exploring such areas as strategic management, analytical thinking, financial analysis and decision making as it develops general knowledge on operation of the banking sector. Implemented by the Leopold Kronenberg Foundation and the Foundation of Entrepreneurship of Young People, the programme is made up of two modules:

Banks in Action – Enterprise Day – one day in the year on which higher secondary school students will be invited to the Bank so that they can see what the work of bankers involves. This project is executed in the context of nationwide Enterprise Day programme. In 2008 the Enterprise Day was held on 3 April on which the Bank received 269 students, which was the largest number among all the firms taking part in the programme.

The Banks in Action Competition – a national outreach competition which uses a computer game that simulates operation of a commercial bank. As the game is conducted in English, the students are provided with natural opportunities for complementing their knowledge of the language with economic and banking terms and concepts.

In November 2007 the Bank launched the **ZrozumFinanse.pl** educational portal – created to serve as an accessible entry point to the topic of managing personal finances. Developed by the Bank's specialist, the website offers novel solutions portals of the type do not normally include. It is the only bank initiated portal in Poland to offer the user the choice of content and navigation approach based on the user profile (Single, Pair of Family respectively). The portal content has been organised to follow the needs of the representatives of the respective user groups in such a way as to ensure that they find topical information of interest there. The material is divided into sections, which present various approaches to the subject of finances, so as to facilitate the use of the available resources for the visitors. Additionally, the portal features some useful tools, such as calculators, a glossary of financial and economic terms, and multimedia solutions, including films presenting various fields of finance and multimedia games. The audience of ZrozumFinanse.pl users has grown steadily: in February we registered some 100,000 visits while in June that number increased to 350,000.

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

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

This year the Gieysztor Award went to The Ossolinski National Institute in Wrocław, which received the citation for close to two centuries of acquiring and collecting the most valuable archives and library items of unique importance for the Polish national culture. This was delivered on 18 March 2008 at a gala held at the Royal Castle in Warsaw. The Foundation also participated in production of Memory and Identity (*Pamięć i tożsamość*), a documentary devoted to Ossolineum.

In order to maintain the high level of social responsibility and involvement of the Bank employees, the Foundation continues to expand the **Employee Volunteer Programme**. The Bank employees can choose from among many offers of voluntary work: translations for NGOs, child assistance, teaching the English language, delivery of training courses and presentations, etc.

This year the volunteer Bank staff took part in the following projects coordinated by the Foundation:

- Within the Architects of Hope programme implemented jointly with Habitat for Humanity, 43 volunteers built a home for needy families in Józefosław;
- 37 volunteers were involved in financial education. The shared secrets of their work in the bank with pupils within the framework of the Banks in Action – Enterprise Day and provided expert support and served as judges in the final stage of the My Finance – From Class to Class competition;
- 35 employees of the Bank took part in the Marek Grechuta Magical Song Festival organised by *Mimo Wszystko*, Anna Dymna Foundation. In the course of this event volunteers took care of disabled persons, worked as ushers assisting the guest, sold gadgets of the *Mimo Wszystko* Foundation, distributed balloons to passersby, led games for children and cleaned the festival site.

The Employee Volunteer Programme in the Bank is supported by Volunteer Management System (VMS), a modern programme implemented at the beginning of the year, through which volunteers can easily enter the internet based database of volunteer projects, which they can search for actions interesting to them, monitor own involvement in voluntary work and learn of initiatives supported by the Foundation. Since January of this year 319 volunteers were involved in implementation of 42 projects.

Commitment of the Bank volunteers was recognised by the Volunteering Centre. Two employees of the Bank were named the Personality of the Month: Jędrzej Borowiński in February and Edyta Tararuj in May.

The Bank and the Leopold Kronenberg Foundation were the main partners of the **Responsible Business** programme organised by Newsweek Polska, running between October 2007 and May 2008. It constituted of a cycle of 16 regional conferences devoted to the topic of Social Responsibility of Business, to which local business people were invited. The main purpose of these meetings is to disseminate the idea of social responsibility of business among local business people in Poland, to demonstrate to them how they can engage in activity of this kind and what they stand to gain from engaging in the life of the community in which their run their business. The regional conferences promoted the idea of social responsibility, demonstrated some best practices and encouraged the audiences to apply for EU funding available for socially responsible actions. The 10 conferences organised in this year were attended by nearly 700 (the entire cycle will bring together over 1,000). The programme included the Good Deal competition for the most socially engaged firm in the region. The Academy for Development of Philanthropy in Poland acts as the project's consultant partner. At the final conference held in Warsaw on 27 May, with participation of Sławomir S. Sikora, President of the Bank Management Board, the project presented, among others, the first comprehensive report on socially responsible business at the local level in Poland.

The Bank and the Leopold Kronenberg Foundation together with Our Earth Foundation implemented the More Trees Thanks to You project. Within it the Bank would plant a tree on behalf of each customer who decided to move to electronic bank statements. Within the programme, in spring of 2008, 40,000 trees were planted in the Mazowieckie Voivodship, which is affected by the problem of loss of 'green corridors' (migration trails for animals and plants). Selected schools of the Mazowieckie Voivodship, Bank clients and employees, including the President and Members of the Management Board took part in the tree planting campaign. Aforestation was carried out under the supervision and in keeping with a plan adopted by the State Forests. On 26 April, during the Earth Day, the grand finale was held in the Młocińskie Forests in Warsaw of the first tree planting campaign combined with ecological picnic, with over 300 employees and customers of the Bank attending.

The Foundation also runs the Subsidies Programme. In the first half of 2008 the project work focused on implementation of an innovative, electronic application submission system. Instead of the tradition form of a paper-based application filed in 5 duplicate copies, the applications will be accepted in a novel Electronic Subsidy Application Processing System. The software system will support handling of the entire application acceptance and assessment process. This will facilitate the process and clear environmental benefits.

In the first half of 2008 the economic education efforts of the Foundation met with public recognition for the first time. In June the Bank received the Prize of the Association for Financial Security of the Citizens of Poland (STOB), awarded for commitment to and activity of financial education.

Cultural Patronage

Patronage of culture and the arts and cooperation with the National Philharmonic brought to the Bank once again the title of the Patron of the Year 2008. In March 2008 Bank sponsored the National Philharmonic Hall concert of Nigel Kennedy, the world stage violin virtuoso megastar. The artist performed Sir Edward Elgar's Violin Concerto in B minor with the W. Lutosławski Wrocław Philharmonic Orchestra conducted by its Art Director Jacek Kaspszyk. The conductor also led the Wrocław Philharmonic in Johannes Brahms' Piano Quartet in G minor orchestrated by Arnold Schönberg.

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 forecast prepared by the Bank, growth of Poland's GDP may slow down to around 5.1% in 2008 and subsequently to 4.3% in 2009 as compared to 6.6% in 2007. Most likely the slowdown will be attributable to deterioration of the country's trade balance related to dynamic growth of imports and weakening exports. Additionally, economic growth may also wane in the second half of 2008 and in 2009 because of investment demand weakening as prospects for continued global growth deteriorate.

Despite its continued decline, inflation may remain at an inflated level, primarily do to energy price increases. The scale of inflation decline will most likely depend on the rate of the possible appreciation of the Polish currency and on the food market trends. In the case of reversal of inflationary trend, the monetary authorities could limit or end the cycle of interest rate increases in the second half of 2008.

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 Polish Financial Supervision Authority (PFSA). As of 1 January 2008 the competences until then vested with the Commission for Banking Supervision (KBN) were conferred on PFSA.

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 and credit risk standards (resolutions of KNB);
- risk management in a bank (Banking Law Act and 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);
- Countering Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources and Counteracting the Financing of Terrorism Act of 16 November 2000;
- Consumer Credit Act of 29 July 2001.

Also, because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2007 of the Commission Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID Directive) and in its executive legislation, such as the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006), the process of adjustment of the institutions the MiFID Directive applies to (investment firms and lending institutions conducting investing activities) has not been conducted in compliance with the provisions specified by the European Union. Legislative process is being continued in the year 2008 with the aim of achieving transposition of the European on to the national regulations, and in particular to the Trading in Financial Instruments Act and the ordinances issued by the Minister of Finance on the basis of the act. The changes in legislation in the abovementioned field that are expected to be effected in the year 2008 also apply to operation of Dom Maklerski Banku Handlowego S.A., the Bank's subsidiary.

1.3 Competition within the Banking Sector

The Polish banking sector remains a highly attractive and fast developing market in all of the banking services segment, which strengthens competition. This, in turn, increases the pressure of reducing fees and commissions in both retail and corporate banking. We expect this trend to continue in the near term because of the growing number of banks and non-bank credit institutions in the market and the substantial interest of foreign financial institutions in the Polish banking sector. Additionally, the competitive pressure is exacerbated by the growing opportunities for delivery of alternative forms of funding to the corporate sector, such as leasing and factoring.

Poland's accession to the European Union provided foreign banks with an opportunity of operating cross-border activities in the Polish market.

The banks from the European Economic Area can in Poland, i.e. without their actual presence here or via its branches. Between 1 May 2004 and 18 June 2008 the banking supervision authority received 244 notifications from the competent supervisory authorities of the Member States of the European Economic Area announcing the intention of the lending institutions subjected to their supervision to undertake cross-border activity in the territory of the Republic of Poland. This most certainly increases competition in the banking services market, but is unlikely to alter its structure in the coming years. The main argument for acceptance of such a market development scenario is the fact that the institutions interested in operation on the perennially attractive Polish banking market have been here for a number of years in which time they managed to achieve a position that the new players just starting their operations in Poland under conditions of mounting competition will find hard to assail. Hence the race toward strengthening of market positions will largely play itself out at the level of service quality and the attendant customer service efficiency and speed. Equally, further consolidation of banking sector could ease the competition.

Another material risk that may have negative impact on margins in the banking sector is the development of an offering of financial products and services which have until now been restricted to banks by non-bank entities, such as retailer chains and loan brokers.

The Bank continues to observe the potentially detrimental impact of the global financial market crisis triggered in the U.S. sub-prime mortgage lending market segment, the ultimate scale and scope of which is hard to estimate. It seems however that the Polish banking sector is relatively immune to effects of these events. Because the bank carries no exposure toward that segment, any potential impact of the crisis on the Group's activity would be substantially reduced. What is more, the situation now prevailing in the U.S. sub-prime mortgage lending market is not likely to occur in Poland, do to the substantially more restrictive conditions applied in mortgage lending. Despite the dynamic growth in mortgage loan volumes, their relationship to GDP is still much lower than in the developed economies of Western Europe or the United States of America.

The growing demand for interbank market sourced funding coming from other banks may bring benefits to the Group. It can contribute to growth of demand for the products the Group offers in this area and thus to growth in revenue of the Group.

Though aware of the many risk factors occurring in its operational environment, the Bank is well prepared to compete on the equitable European terms, 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, among others, determines the Bank's pricing policy in the context of interest rate risk. In the first half of 2008, the level of interest rate risk ranged between moderate and high.

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. Operating risk includes the risk relating to business practices as well as legal risk, or the risk of noncompliance with the effective legal regulations or internal regulations of the Group. Operating risk does not include the reputational risk, the strategic risk or the risk of potential losses arising from decisions relating to undertaking the credit risk, the market of potential, the liquidity risk or the insurance and underwriting activity risk.

The rules of operating risk management are regulated by the Policy for the Operating Risk Management.

The key roles and responsibilities for operating risk at different levels of the Bank's top management:

- the Bank Management Board is responsible for development and implementation of the risk management strategy, and within that for organisation and functioning of operating risk management process and – if needed – for ensuring the adjustments necessary for improving that process. The operating risk management rules and procedures cover the entire scope of the Bank's operations. All the strategic decisions on the Bank's policy, its organisation, allocation of roles and responsibilities, process reengineering, automation and centralisation represent the sole domain of the Bank Management Board;
- the Supervisory Board exercises oversight over the control of the operating risk management system and assesses its adequacy and effectiveness;
- Each of the main business segments and each subsidiary have the obligation of implementing their operating risk management process that is consistent with the requirements of the operating risk management policy. Though risk identification, self-assessment and the reporting processes and

largely regulated and uniform in the business units, each business unit defines own risk containment, monitoring and measurement processes, which can differ between them.

The operating risk management process in the Group is aimed at ensuring:

- consistent and effective approach to identification, control, assessment, monitoring and measurement of operating risk and reporting in this respect;
- effective reduction of the level of exposure to operating risk, and consequently reduction of the number of operating risk events and severity of their effects (the policy of low level of tolerance for operating losses);
- fulfilment of the operating risk related capital requirement; and
- compliance with regulations relating to operating risk management.

The Group has employed various tools and methods in managing operating risk (including in particular policies, procedures, checklists, limits, the self-assessment process, data security management tools, contingency plans, insurance policies and audits). The operating risk management process is further supported through the qualitative and quantitative measurements of operating risk. The risk management processes the Group applies serve to limit the sources of adverse consequences of any operational events (outage with operational losses), to reduce the probability of occurrence of such events and to minimise the severity of the potential effects.

Management of operating risk is based on the following key elements:

- risk identification
- risk limitation
- risk self-assessment and control
- risk monitoring
- risk measurement, and
- reporting of the areas exposed to operating risk.

The self-assessment process implemented by the Group includes ongoing identification, control, assessment, monitoring, measurement and reporting of the both the control process quality and of any potential threats. Data on the impact of operating risk (loss) related events are collected and analysed on regular basis.

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

The responsibility for ongoing monitoring of operating risk in the Group rests with the Risk, 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.

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. In the future the Group will focus on further tailoring the operating risk related processes to the Group’s risk profile.

The Group follows the standard method of calculation of the operating risk related capital requirement.

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 long-term objective is to systematically increase shareholder value by ensuring appropriate return on equity and growth of market share in its key market segments. The Bank intents to be a leading financial institution in Poland as it offers world class products and high quality of service to its domestic and international customers and clients, develops attractive and fulfilling work environment of its employees and as it sets the standard of corporate social responsibility. Its key priority is to ensure effective use of capital as it maintains the regulatory capital adequacy ratio at safe level. As it strives to achieve dynamic revenue growth, the Bank also pursues a parallel strategic objective of focusing on building a culture of conscious cost expenditure, understood as optimal allocation of resources toward profitability justified operational business needs.

The Bank intends to continue active acquisition of new customers, both consumer and corporate, with a particular emphasis on middle income customers and SMEs. The Bank perceives customer satisfaction as key to effective customer acquisition and intends to undertake a number of initiatives aimed at increasing it (e.g. streamlining of operational processes, shared branch network, integrated corporate/institutional client service platform).

The Bank plans to continue the process of exploiting the synergies between corporate and consumer banking, both in the field of products and through delivery of a common distribution network as it implements to One Bank strategy.

In the medium term, the Bank shall maintain the goal of achieving double digit market share; measured as the share in the result on banking activity of the entire banking sector. The market share growth objective will be attained as the Bank maintains its position of leadership in corporate banking and dynamically improves the results achieved in consumer banking.

1.1 Corporate and Commercial Bank

As a leader in corporate banking in Poland, the Bank addresses a rich and continually tailored and readjusted offer to all companies, irrespective of the market segment in which they operate, with 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 U.S. government.

The Bank plans expansion in the small and medium enterprise segment (SMEs), as it perceives every company of that market segment as its strategic client. The Bank intends to continue acquiring 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 to improve accessibility by increasing the number of branches dedicated to serving this group of enterprises. Development of an integrated platform for management of relationships with clients of the SME sector will enable the Bank to draw fully on the product offer and the sales capability of the Corporate Bank as well as on the effectiveness and innovativeness of the operational processes characteristic of the Consumer Bank. As a outcome of those actions, the Bank will deliver a well tailored and competitive product offer to this rapidly expanding market segment.

The Bank retains a particularly strong position in servicing international corporations and the largest Polish companies. It also holds a leading position in handling money market and foreign exchange transactions. Its goal is to retain its present market share in all these segments and to improve its position in all the other areas of corporate banking.

Substantial part of the Bank's revenue will come from Treasury Division products, including cash management and trade finance. The solutions and innovations in these product groups and the high service quality 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's aim is to gain a position among the top three banks in terms of revenue from banking activity in the corporate banking segment.

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 segment while it continues to acquire new individual customers. DMBH is ensured cost-efficient access to and servicing of retail customers through ever closer cooperation with the Consumer Bank. The primary offerings market will also contribute to the strength of the Bank's brokerage business.

At the end of the first half of 2008 DMBH's market share measured in equity trading volumes reached 12.4% as compared to 9.0% after the first half of 2007. This was achieved primarily through the highly robust position DMBH holds among the institutional investors.

1.3 Leasing

The priorities of the leasing business for the remaining quarters of the year include:

- increased cross-selling in collaboration with the Bank. One key element that will form systemic basis for regular interaction between the Bank and the Group's leasing company is the common platform structured in the Corporate and Commercial Bank, which encompasses of all the SME clients. We expect that the One SME platform will have a positive impact on mutual cross-selling between the leasing company and the Bank;
- sales growth in the construction machinery, the printing machinery, the metalworking machinery and the injection moulding machinery segments;
- sales growth in the smaller vehicles segment; and
- maintaining high level of portfolio management discipline with growing financial and operational effectiveness.

There is a market consensus that higher sales of machinery can be expected in the second half of 2008 as awarded EU funds become available. We offer leasing finance compliant with the EU procedures to clients taking advantage of EU grant funding.

Growth in leasing of machinery and smaller vehicles will be very important as in the first half of 2008 Polish market experienced a decline in sales of heavy vehicles and deterioration in the conditions experienced by the transport sector. Should this persist, Handlowy Leasing can experience a decline in sales in a segment that represents an important part of its business.

As concerns new products, Handlowy Leasing has been working on a new fleet management solution together with an external partner. It plans to offer its clients operating leases combined with complete fleet handling support. The product represents on of the most dynamically growing market segments.

1.4 Consumer Bank

The Bank's aim is to become the most frequently recommended consumer bank in Poland, one which delivers lasting benefits to its customers, employees and shareholders.

The Bank's product offer is responsive to need of the customers representing various market segments. The Bank intends to further strengthen its leading position in servicing wealthy individuals by offering them top quality advisory in investment products, by expending the product offer and through facilitation of access to the global solutions of Citigroup. The Bank has concentrated on acquisition of new customers in the middle income customers segment. Through creation of a comprehensive product offer responsive to their financial needs, the Bank seeks to strengthen its relations with the customers. In addition to rolling out its traditional network of branches, it has focused on exploitation of indirect distribution channels.

Launching of innovative banking product and service solutions is one of its priorities. The Bank will continue developing its offer of solutions addressed to the most demanding customers.

The broad offer of investment and insurance products is a response to the continuing interest in products of that type. The Bank offers carefully selected highest quality products of prestigious financial institutions and enhances its offer with new services as it take into account the changing needs of its clients, which includes guaranteed capital products. The Bank has also developed a competitive offer of structured products. In these times of pressure on the capital markets, the Bank has paid great attention to educating customers in the principles of the systematic saving strategy.

The insurance offer will be additionally enhanced to include pension funding products, insurance packaged with loan products and property insurance.

CitiBusiness will continued to pursue the aims of increasing the number of customers and strengthening the Bank's position in the SME market. With its comprehensive and attractive offer for microenterprises and the small business, CitiBusiness ahs concentrated on promoting such key products as: the Corporate Credit Card and the Direct Account. At the same time, it has dynamically modified the existing offer in response to the changing market conditions, with such examples as the Corporate Savings Account or the CitiBusiness for Starters offer, which provides credit card finance to enterprises from the very first day of their business operation.

The Bank intends to retain its position of leadership on the highly competitive credit cards market. With that purpose in view, it has concentrated on developing partnership offers, diversification of distribution channels and cutting down on the credit decision time. It also intends to be the leading supplier of cash loans.

The Bank implemented credit product offers addressed to retail customers supported with sophisticated risk assessment methodologies and customer segmentations: the cash loans and unsecured credit lines. Approach of this type has enabled achievement of more refined fit between the product and the customer's need and the products can be marketed consistently with the principles of responsible lending. As it implements modern IT solutions, the Bank continually works to ensure quality of the operational process.

The Bank's market share in deposits from private individuals rose to 2.1% at the end of the first half of 2008 as compared to 2.0% at the end of the first half of 2007.

1.5 Distribution Network

In the first half of 2008 the Bank operated on the market under two brands:

- – for distribution of consumer, corporate and investment banking products; and
- – for the CitiFinancial distribution channels.

The Bank serves its clients and 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.

In order to meet the growing customer expectations and the growing competitive challenge, the Bank took a decision on integration of all of its outlets. As of 1 January 2008 it merged the branch networks of the Corporate Bank, the Consumer Bank and CitiFinancial.

The network integration project assumptions provide for a number of benefits accruing from it to the Bank and its customers and clients, among others:

- expansion of customer service in selected outlets, with ultimate provision of a new standard customer service in all the outlets;
- delivery of a broad product offer to the Bank's customers and clients;
- combining of selected outlets and their relocation to locations assessed as more accessible from the perspective of the customers and clients;
- implementation of the model of authorised customer service points (or 'lite branches') offering customers credit products.

The integration of the branch networks will also generate synergies, particularly in the field of SMEs and CitiBusiness as well as between the Consumer Bank and the Commercial Bank. The priorities include increasing functionality and accessibility of remote distribution channels and upgrading the qualifications of the bank 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 via the CitiPhone call centre for the Consumer Bank customers and via the corporate client call centres for the large and medium-sized enterprises will be maintained.

2. Synergies

The Bank combines its longstanding traditions and experience gained in the Polish market with the global experience of Citigroup to offer comprehensive solutions and service to all the customer and client segments, whatever their need. In this it takes advantage of the opportunities afforded by the synergies between corporate and consumer banking and between banking, leasing and brokerage services.

The Bank will continue exploiting the synergies between its consumer and corporate parts, among others, in such the areas as: offering attractive consumer banking products to employees of the largest companies being the Bank's clients; offering corporate products (inter alia, specialist treasury, brokerage and asset management products) to customers of the CitiGold segment; offering a tailored product offer of the Treasury Division to microenterprises; and of using a uniform branch network accessible to all customers and clients.

VIII. Corporate Governance

1. Principles of Good Corporate Governance and Best Practice in the Bank

At its meeting of 11 March 2008 the Bank Management Board adopted a resolution on acceptance of a report concerning compliance with good corporate governance in the year 2007 and on submission of the contents of the same compliance with good corporate governance in the year 2007 report for acceptance of the Supervisory Board. At its meeting of 20 May 2008 the Bank Supervisory Board accepted the report concerning compliance with good corporate governance in the year 2007. The same report was subsequently accepted by the resolution of the General Shareholders Meeting of 19 June 2008.

Through its resolution of 13 May 2008 the Bank Management Board stated the Bank's commitment to compliance with the principles of good corporate governance stated in the Best Practices in Companies Traded on WSE, with the following exceptions:

(i) rule II.3 (addressed to Management Boards) and rule III.9 (addressed to Supervisory Boards) relating to approval by the Supervisory Board of all material transactions/agreements with related entities, as applicable to agreements entered into as part of day-to-day operations, and particularly those relating to liquidity management; and

(ii) rule IV.8 relating to ensuring replacement of the legal entity authorised to audit corporate financial statement at least once every seven business years.

On 20 May 2008 the Bank Supervisory Board also adopted a resolution accepting the Bank's commitment to compliance with the principles of good corporate governance stated in the Best Practices in Companies Traded on WSE, with the exception of the rules earlier indicated in the Bank Management Board's resolution.

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 WSE in the form of the Best Practices in Public Companies 2005 paper and since 1 January 2008 in the Best Practices in Companies Traded on WSE paper, except that in respect of the latter document the Bank's governing bodies admitted that three of the rules state therein may not be applicable to the Company's practice. 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 of relationships and processes between its statutory bodies, the Bank introduced the good corporate governance practices discussed above.

Bank appended a report on application of principles of good corporate governance in the Bank in the year 2007 to its Annual Report in respect of the year 2007.

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 integral part the investor 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:

- Regular meetings with analysts and investors in the form of briefings and conference calls, also in the Bank's headquarters, with participation of the Bank Management Board;

- Support from the Public Relations Office at quarterly media press conferences organised at publication of periodic reports;
- Publication on the Bank's website of current information about the Bank and its businesses, and all the current and periodical reports; the website facilitates contact with the Investor Relations team, which provides information about the Bank and its Capital Group;
- Enabling participation of media representatives at the General Shareholders 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 Supervisory Board is composed of independent members, including the Chairman of the Board;
- Within the Bank Supervisory Board functions the Audit Committee composed of two independent members, including the independent Chairman of the Committee;
- Remuneration of all the Management Board members is commensurate with the company size and reflects the individuals' scope of duties and accountability;
- All significant internal regulations as well as information and documents relating to the Company General Shareholders Meetings are available at the Company's headquarters and via its website.

1.3 Minority Shareholders Rights

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

- The General Shareholders Meetings always take place in the Company's registered seat in Warsaw;
- Presence of representatives of the media at the General Shareholders Meetings is allowed;
- In accordance with corporate practice, all important materials being prepared for the General Shareholders Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to Shareholders no later than within 14 days of the date of the General Shareholders Meeting, at the Company's seat and via the Bank's website
- The General Shareholders 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 Shareholders Meeting in order to provide it with explanations and information about the Bank within the scope of their competencies;
- The General Shareholders Meeting participants objecting to a resolution are offered an opportunity for brief presentation of the rationale of their objection. Moreover, each General Shareholders Meeting participant can submit written statements to the meeting minutes.

2. Bank's Authorities and Other Corporate Governance Rules

In the first half of 2008 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 Management Board and the Supervisory Board in the first half of 2008

2.1.1 Changes in the Composition of the Bank Management Board in the first half of 2008

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 19 March 2008 Ms. Lidia Jabłonowska–Luba, Member of the Bank Management Board submitted her resignation from performance of the function of the Member of the Bank Management Board – Chief Financial Officer of the Bank effective as of 31 March 2008.

2.1.2 Changes in the Composition of the Bank Supervisory Board in the first half of 2008

Stanisław Sołtysiński	Chairman of the Bank Supervisory Board
Shirish Apte	Vice-Chairman of the Bank Supervisory Board
Andrzej Olechowski	Vice-Chairman of the Bank Supervisory Board
Susan Blaikie (previously Dean)	Member of the Bank Supervisory Board
Sanjeeb Chaudhuri	Member of the Bank Supervisory Board
Goran Collert	Member of the Bank Supervisory Board
Mirosław Gryszka	Member of the Bank Supervisory Board
Sabine S.Hansen	Member of the Bank Supervisory Board
Krzysztof L. Opolski	Member of the Bank Supervisory Board
Aneta Polk (previously Popławska)	Member of the Bank Supervisory Board
Michael Schlein	Member of the Bank Supervisory Board
Wiesław A. Smulski	Member of the Bank Supervisory Board

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 Bank Management Board are appointed by the Bank 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.

The Bank Management Board drafts, introduces and ensures operation of a system of management in the Bank, including written development, implementation and updating of strategies and procedures, and undertakes actions in the areas of the risk management system, internal audit and estimation of internal capital, and reviews of the processes of estimation and maintenance of internal capital.

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 any affiliated company of the Bank. One member of the Supervisory Board owns 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 Merger or 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.

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 give 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 Act (Article 25), a person who takes or acquires more than 10%, 20%, 25%, 33%, 50%, 66% or 75% of the Bank's total shares must obtain a permit from the Polish Financial Supervision Authority. A permit is also required to dispose of shares, if the holder exceeded the above limits previously. 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
18.09.2008	Sławomir Sikora	President of the Management Board	
18.09.2008	Michał H. Mrożek	Vice-President of the Management Board	
18.09.2008	Edward Wess	Vice-President of the Management Board	
18.09.2008	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	
18.09.2008	Witold Zieliński	Vice-President of the Management Board	