REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN THE FIRST HALF OF 2011

AUGUST 2011

CONTENTS

I. Poland's Economy in the first half of 2011

1. Main macroeconomic trends

Gross Domestic Product in the first quarter of 2011 grew 4.4% YoY compared to 4.5% in the fourth quarter of 2010 and 3.8% YoY in the whole year 2010. Industrial production grew between January and May 2011 by an average of 8.4% YoY. Good performance of the major trade partners (Germany) fostered the maintenance of high demand for Polish exports, however, both the pace of exports and industrial production growth gradually declined. The pace of exports growth was 16.5% YoY in the period from January to April, compared to 19.3% YoY in the second half of 2010. The pace of imports growth in the period was similar and stood at 18.6% YoY compared to 22.4% YoY in the second half of 2010.

The gradual economic recovery fostered a further improvement in the labor market. Employment in the period from January to May 2011 grew by an average of 3.9% YoY compared to 1.9% YoY in the second half of 2010 and 0.8% YoY in the whole of 2010. At the same time a slight increase in the pace of pay rises in the enterprise sector was recorded, to 4.6% YoY from 3.8% in the second half of 2010 and 3.5% in the whole of 2010, which suggests that the pay rise pressure is still limited. As a result of the above-mentioned trends, work efficiency declined and unit labor costs increased. In February 2011 the unemployment rate peaked at 13.2%, similarly as in February 2010, and started its downward trend, reaching 12.2% at the end of May 2011.

In the period from January to May 2011 the average growth of consumer goods and services prices accelerated to 4.2% YoY from 2.5% YoY in the second half of 2010 and 2.6% YoY in the whole of 2010. The growth in inflation was a result of a significant increase in annual dynamics of prices of food, fuel, clothes and footwear, which was also facilitated by a growth in VAT from January 2011. The growing demand pressure contributed to an increase in core inflation indicators. In the period from January to May 2011 average inflation net of food and energy amounted to 2.0% YoY, compared to 1.3% YoY in the second half of 2010 and 1.6% YoY in the whole of 2010.

In connection with a growing dynamics of prices and accelerated pace of economic growth, the Monetary Policy Council (RPP) increased interest rates in the first half of 2011 four times and the NBP reference rate grew to 4.50% from 3.50%.

2. Money and Forex markets

In the first half of 2011 relatively small fluctuations were recorded in the FX market compared to the period of 2009-2010. At the beginning of the year zloty weakened from about 3.80 EUR/PLN to about 4.10 EUR/PLN in mid-March 2011. It was the effect of growing expectations for faster tightening of the monetary policy in the euro zone and growing aversion to risk due to the situation in Middle East and North Africa. For almost the entire second quarter of 2011 the EUR/PLN rate stabilized between 3.90 and 4.00. Although the risk appetite was negatively affected by concerns related to the situation in Greece, the scale of depreciation of zloty was limited due to the sale of currencies in the market by the Ministry of Finance. Consequently, as at the end of June 2011, the EUR/PLN exchange rate was 3.99 compared to 3.96 as at the end of 2010, while the USD/PLN rate went down to 2.75 from 2.96.

Interest rates on the money market went up following interest rate increases by the Monetary Policy Council. 3M WIBOR, that affects the interest rate on loans and advances in the Polish economy, increased to 4.69% as at the end of June 2011 from 3.95% at the end of 2010. At the same time the spread between money market rates and reference rates tightened significantly, thus reflecting further normalization of the money market.

3. Capital market

The picture of the capital market in the first half of 2011 was not clear. On the one hand, soaring prices of raw materials pushed up share prices of cyclical companies to record figures. On the other hand, such factors as the escalation of the Greek crisis or uncertainty regarding effects of the US monetary policy were effectively hampering investors' appetite for shares. The following domestic factors were also significant for the situation on the Warsaw Stock Exchange ("WSE"): lock-up for the current shares (both on the part of the State Treasury and due to a large number of planned public offerings), concerns for lower demand for shares of Open Pension Funds due to limited transfers and the lack of significant inflows to domestic equity funds. Consequently, all main WSE indices recorded symbolic changes.

From among the main indices the highest rate of return was recorded by WIG20 (+2.1% compared to the end of 2010). The poorest performance was shown by companies with the smallest capitalization, for which the index declined by 1.1%. Negative sentiment to construction companies and developers was reflected in the highest decreases of sub-indices for those sectors (by 21.1% and 14.3%, respectively). Due to growing prices of raw materials, chemical companies (+47.2%) and fuel companies (+15.4%) proved the best investments in the first half of 2011.

The first half of 2011 saw numerous public offerings. During this period shares of 24 companies debuted on the main stock exchange (including four transferred from New Connect), the total value of which was nearly PLN 2.2 billion. At the same time shares of nine companies were withdrawn from trading. At the end of June 2011, 413 domestic companies were listed on the main market (379 domestic and 34 foreign) with the aggregated market value of PLN 813.4 billion (including 68% capitalization of domestic companies).

Warsaw Stock Exchange equity market as at 30 June 2011

Index	30.06.2011	Change (%)	31.12.2010	Change (%)	30.06.2010
WIG	48,414.36	1.9%	47,489.91	22.9%	39,392.47
WIG-PL	47,811.51	2.3%	46,737.15	24.1%	38,533.81
WIG20	2,802.01	2.1%	2,744.17	23.4%	2,271.03
mWIG40	2,850.55	1.6%	2,805.26	20.1%	2,373.84
sWIG80	12,085.98	(1.1%)	12,219.94	10.1%	10,980.45
Sector specific sub-indices					
WIG-Banks	6,801.48	(1.7%)	6,921.28	17.5%	5,786.52
WIG-Construction	4,258.96	(21.1%)	5,400.33	(21.1%)	5,396.44
WIG-Chemicals	7,588.77	47.2%	5,156.38	127.8%	3,331.14
WIG-Developers	2,322.16	(14.3%)	2,709.52	(11.6%)	2,628.28
WIG-Energy	4,385.79	1.7%	4,314.39	16.2%	3,775.17
WIG-IT	1,258.34	3.0%	1,221.85	8.5%	1,160.15
WIG-Media	3,385.52	(10.7%)	3,792.19	2.2%	3,312.80
WIG-Fuel industry	3,554.70	15.4%	3,079.41	43.2%	2,482.82
WIG-Food industry	4,373.05	(3.6%)	4,536.52	16.3%	3,759.64
WIG-Telecommunication	1,397.38	9.9%	1,271.86	23.9%	1,127.74

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

Volumes of trade in shares, bonds and derivative instruments on WSE as at 30 June 2011

	1st half of 2011	Change (%) 1H11/2H10	2nd half of 2010	Change (%) YoY	1st half of 2010
Shares (PLN million)	309,832	25.4%	247,168	36.9%	226,260
Bonds (PLN million)	774	(53.6%)	1,669	(34.7%)	1,185
Futures contracts (thousand units)	13,405	8.2%	12,393	(14.2%)	15,625
Option contracts (thousand units)	1,016	52.0%	668	49.0%	682

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

The first half of 2011 brought about record turnovers on the WSE equity market. From the beginning of the year the value of traded shares exceeded PLN 309.8 billion and was by almost 37% higher than in the first half of 2010, however, it should be remembered that the data for the first half of 2011 include transactions under the call of BZ WBK.

In the same period there was a visible slump in debt securities trading. The volume of bond trading declined significantly both on a half-yearly and yearly basis (by 53.6% and 34.7%, respectively).

Futures market investors were a little less active in the first half of 2011 than during the first six months of 2010. The accumulated volume of trade in futures was 13.4 million units and by 14.2% lower YoY.

Unlike futures contracts, option contracts market significantly revived in the first half of 2011. During the period from January to June 2011 the volume of trade in option contracts exceeded 1.01 million units and was by 52% higher than in the second half of 2010 and by 49% higher than in the first half of 2010.

4. Banking sector

According to the Polish Financial Supervision Authority (PFSA) data, in the period from January till May 2011, the sector revenue grew by 7% in comparison to previous year, while the expenses dynamics was slightly lower and amounted to 5%. It resulted in the increase of operating margin by 9% (from January till May 2011 the cumulative operating margin amounted to over PLN 11 billion). Due to improvement of credit portfolio quality the banking sector reported decrease of net impairment losses by 26%, which had a positive impact on the net income (increase by 39% to over PLN 6 billion). Preliminary data (till May) show that the net income of banking sector in 2011, despite the turmoil on global financial market, may amount to around PLN 15 billion, which would be the highest result in the history.

Substantial impact for this situation has the good condition of Polish companies, gradual improvement of the labor market, as well as the increase of interest rates. The rates were increased by the Monetary Policy Council by 25 b.p. four times in the first half of 2011 (reference rate went up from 3.50% to 4.50%). It had a direct impact on the increase of margin earned by banks, especially when it comes to current deposits of both individuals and corporates.

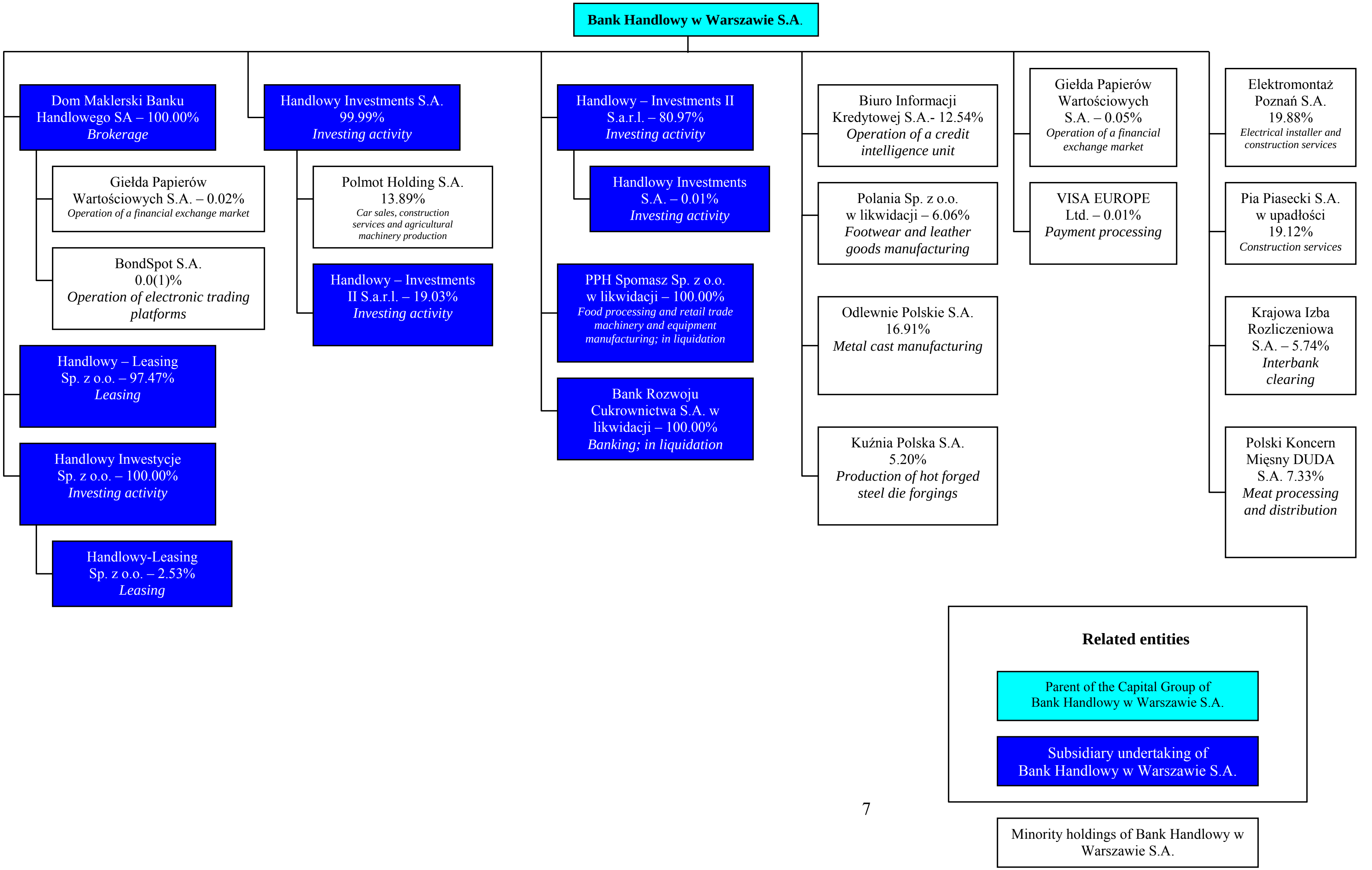
In the second quarter of 2011 the volumes of corporate loans and deposits grew at similar pace (5% in comparison to the first quarter of 2011, up by 6% YoY). Corporate loans at the end of June 2011 were near to PLN 220 billion, as the deposit volume reached nearly PLN 179 billion.

In the second quarter of 2011 households loans increased by 4% (up by 9% YoY), mainly because of the housing loans, the volume of which increased by over PLN 18 billion to the level of almost PLN 292 billion (up by 7% QoQ and by 15% YoY). Foreign exchange rate fluctuations had a major impact on the mortgage loans portfolio increase, especially strengthening of Swiss Franc value against Polish Zloty (+7% QoQ, +5% YoY). Excluding the FX impact, the dynamics of mortgage loans portfolio is lower and amounts to 3% QoQ and 12% YoY. Consumer loans recorded slight quarterly decline (-0,4%), and in the year over year comparison it decreased from PLN 138 billion to PLN 134 billion (-2% YoY), as a result of a more restrictive credit policy and implementation of Recommendation T.

The volume of households' deposits did not record any significant changes in the second quarter of 2011. Demand deposits drop was recorded, whereas term deposits increased slightly by over PLN 2 billion (+1% QoQ). The volume of households savings gathered on the bank accounts amounted to almost PLN 427 billion at the end of June 2011 (up by 9% YoY), of which 54% were demand deposits.

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

The organizational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. (Bank) as at 30 June 2011; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA – 100.00% Brokerage
Giełda Papierów Wartościowych S.A. – 0.02% Operation of a financial exchange market
BondSpot S.A. 0.0(1)% Operation of electronic trading platforms
Handlowy – Leasing Sp. z o.o. – 97.47% Leasing
Handlowy Inwestycje Sp. z o.o. – 100.00% Investing activity
Handlowy-Leasing Sp. z o.o. – 2.53% Leasing
Handlowy Investments S.A. 99.99% Investing activity
Polmot Holding S.A. 13.89% Car sales, construction services and agricultural machinery production
Handlowy – Investments II S.a.r.l. – 19.03% Investing activity
Handlowy – Investments II S.a.r.l. – 80.97% Investing activity
Handlowy Investments S.A. – 0.01% Investing activity
PPH Spomasz Sp. z o.o. w likwidacji – 100.00% Food processing and retail trade machinery and equipment manufacturing; in liquidation
Bank Rozwoju Cukrownictwa S.A. w likwidacji – 100.00% Banking; in liquidation
Biuro Informacji Kredytowej S.A.- 12.54% Operation of a credit intelligence unit
Polania Sp. z o.o. w likwidacji – 6.06% Footwear and leather goods manufacturing
Odlewnie Polskie S.A. 16.91% Metal cast manufacturing
Kuźnia Polska S.A. 5.20% Production of hot forged steel die forgings
Giełda Papierów Wartościowych S.A. – 0.05% Operation of a financial exchange market
VISA EUROPE Ltd. – 0.01% Payment processing
Elektromontaż Poznań S.A. 19.88% Electrical installer and construction services
Pia Piasecki S.A. w upadłości 19.12% Construction services
Krajowa Izba Rozliczeniowa S.A. – 5.74% Interbank clearing
Polski Koncern Mięsny DUDA S.A. 7.33% Meat processing and distribution
Related entities
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiary undertaking of Bank Handlowy w Warszawie S.A.
Minority holdings of Bank Handlowy w Warszawie S.A.

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

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

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30.06.2011
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	6,023,386*
Dom Maklerski Banku Handlowego S.A. ("DMBH")***	Brokerage	subsidiary	100.00%	full consolidation	104,115
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	153,071
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	29,326
PPH Spomasz Sp. z o.o. w likwidacji***	ceased operations	subsidiary	100.00%	full consolidation	company in liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per stand-alone balance sheet of the Bank for the first half of 2011*

***Including indirect participations*

**** Pre-audit data*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30.06.2011
Handlowy Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	10,983
Handlowy Investments II S.a.r.l.***	Investing activity	subsidiary	100.00%**	equity valuation	6,947
Bank Rozwoju Cukrownictwa S.A. w likwidacji***	Banking	subsidiary	100.00%	equity valuation	company in liquidation

***Including indirect participations*

**** Pre-audit data*

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

1. Summary financial data of the Group

PLN million	30.06.2011	31.12.2010
Total assets	39,356.7	37,517.5
Equity	6,095.7	6,492.9
Loans*	12,207.2	11,593.4
Deposits*	17,772.9	20,423.0
Net profit	332.6	754.8
Capital adequacy ratio	18.0%	18.8%

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

2. Financial result of the Group for the first half of 2011

2.1 Income statement

In the first half of 2011 the Group generated gross profit of PLN 414.7 million, which represented a decline by PLN 31.8 million, or 7.1 %, compared to the first half of 2010. In the same period the consolidated net profit was PLN 332.6 million, which is a decrease of PLN 16.8 million, or 4.8%, compared to the same period of 2010. Operating revenue (comprising net interest and net fee 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 instruments and net other operating income) declined in the first half of 2011, compared to the first half of 2010, by PLN 105.5 million (i.e. 8.2%) and amounted to PLN 1,184.2 million.

Key contributors to net profit decline included net interest income, which went down by PLN 51.6 million to PLN 695.3 million, net gains on investment debt securities (decline by PLN 46.4 million or 80.4%) and net gains on financial instruments held for trading and on revaluation, which in the first half of 2011 were by PLN 26.0 million lower.

On the other hand, impairment losses improved significantly (by PLN 108.9 million). A positive impact on the net profit had also net fee and commission income that grew by PLN 20.5 million (6.5%) to PLN 337.3 million.

Selected income statement items

	1st half of		Change	
PLN '000	2011	2010	PLN '000	%
Net interest income	695,289	746,862	(51,573)	(6.9%)
Net fee and commission income	337,312	316,846	20,466	6.5%
Dividend income	5,657	5,846	(189)	(3.2%)
Net income on financial instruments held for trading and on revaluation	130,679	156,645	(25,966)	(16.6%)
Net gain on investment debt securities	11,334	57,692	(46,358)	(80.4%)
Net gain on investment equity securities	-	2,516	(2,516)	-
Net other operating income	3,928	3,251	677	20.8%
Total income	**1,184,199**	**1,289,658**	**(105,459)**	**(8.2%)**
Overheads and general administrative expenses and depreciation, including:	(714,761)	(676,598)	(38,163)	(5.6%)
Overheads and general administrative expenses	(685,559)	(644,061)	(41,498)	(6.4%)
Depreciation/amortization of tangible and intangible fixed assets	(29,202)	(32,537)	3,335	10.2%
Net gains on sale of fixed assets	2,276	(217)	2,493	1148.8%
Net change in impairment losses	(57,313)	(166,183)	108,870	65.5%
Share in net profits/(losses) of entities valued by equity method	316	(158)	474	300.0%
Profit before taxation	**414,717**	**446,502**	**(31,785)**	**(7.1%)**
Income tax expense	(82,097)	(97,132)	15,035	15.5%
Net profit	**332,620**	**349,370**	**(16,750)**	**(4.8%)**

2.1.1 Revenue

Net interest income in the first half of 2011 was PLN 695.3 million, compared to PLN 746.9 million in the same period of 2010 (decline by PLN 51.6 million or 6.9%), driven mainly by lower interest income on debt securities held for trading and loans, advances and other receivables.

Net fee and commission income in the first half of 2011 was PLN 337.3 million, compared to PLN 316.8 million in the same period of 2010 (growth by PLN 20.5 million or 6.5%), the main reasons being better result on brokerage activity (growth by 10.7 million or 38.3%), custody services and credit cards.

Net income on financial instruments held for trading and on revaluation in the first half of 2011 was PLN 130.7 million, compared to PLN 156.6 million in the same period of 2010 (decline by PLN 26.0 million or 16.6%). The decline was mainly the effect of lower result on the Bank's proprietary management.

Net gain on investment debt securities in the first half of 2011 was PLN 11.3 million, compared to PLN 57.7 million in the same period of 2010 (decline by PLN 46.4 million or 80.4% mainly due to a change in macroeconomic conditions).

2.1.2 Expenses

In the first half of 2011 the overheads and general administrative expenses and depreciation amounted to PLN 714.8 million, compared to PLN 676.6 million in the same period of 2010 (growth by PLN 38.2 million or 5.6%). The increase in expenses resulted mainly from higher general administrative expenses – almost a twofold growth in spending on advertising and marketing as well as external costs of banking products distribution was connected with the development of Bank's business (strong acquisition of credit cards and personal accounts).

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

Net impairment losses

	1st half of		Change	
PLN '000	**2011**	**2010**	**PLN '000**	**%**
Net impairment losses incurred but not reported (IBNR)	3,793	(30,554)	34,347	112.4%
Net impairment losses on loans and off-balance sheet liabilities	(62,150)	(135,629)	73,479	54.2%
accounted for individually	28,396	(180)	28,576	15,896.6%
accounted for collectively, on a portfolio basis	(90,546)	(135,449)	44,903	33.2%
Other	1,044	-	1,044	-
Total change in impairment losses	**(57,313)**	**(166,183)**	**108,870**	**65.5%**

In the first half of 2011 net impairment losses stood at PLN 57.3 million, compared to PLN 166.2 million in the first half of 2010. Much lower impairment losses referred both to Consumer Banking (better quality of the consumer loan and credit card portfolios) and Corporate Banking (decline due to higher level of released provisions for impaired loans assessed on an individual basis due to stabilized financial situation of clients and lower risk of default).

2.1.4 Ratios

Selected financial ratios

	1st half of 2011	1st half of 2010
Return on equity (ROE) *	12.8%	12.8%
Return on assets (ROA) **	1.6%	1.9%
Cost/income	60.4%	52.5%
Non-financial sector loans to non-financial sector deposits	68.7%	54%

	1st half of 2011	1st half of 2010
Non-financial sector loans to total assets	31%	29%
Net interest income to total revenue	59%	58%
Net commission income to total revenue	28%	25%

* *The quotient of net profit and average equity (excluding net profit for the current period) calculated on a quarterly basis.*
** *The quotient of net profit and average total assets calculated on a quarterly basis.*

Employment within the Group

In FTEs	1st half of 2011	1st half of 2010	Change	
			jobs	%
Average no. of FTEs in the period	5,797	5,483	314	5.7
No. of FTEs at the end of the period	5,879	5,829	50	0.9

During the first half of 2011 the employment within the Group grew slightly.

2.2 Balance Sheet

As at 30 June 2011 total assets of the Group reached PLN 39,356.7 million and were by 4.9% higher than at the end of 2010.

Balance Sheet

	As at		Change	
PLN '000	30.06.2011	31.12.2010	PLN '000	%
ASSETS				
Cash and balances with Central Bank	1,221,450	3,206,554	(1,985,104)	(61.9%)
Financial assets held for trading	4,147,634	3,995,916	151,718	3.8%
Debt securities available-for-sale	16,642,195	13,029,254	3,612,941	27.7%
Equity investments, valued at equity method	56,578	56,332	246	0.4%
Other equity investments	25,381	23,949	1,432	6.0%
Loans advances and other receivables	14,375,095	14,543,248	(168,153)	(1.2%)
to financial sector	2,167,930	2,949,839	(781,909)	(26.5%)
to non-financial sector	12,207,165	11,593,409	613,756	5.3%
Tangible fixed assets	480,858	475,373	5,485	1.2%
property and equipment	462,550	457,065	5,485	1.2%
investment property	18,308	18,308	-	-
Intangible assets	1,286,637	1,285,757	880	0.1%
Income tax assets	371,338	321,669	49,669	15.4%
Other assets	739,594	569,587	170,007	29.8%
Non-current assets held-for-sale	9,901	9,901	-	0.0%
Total assets	**39,356,661**	**37,517,540**	**1,839,121**	**4.9%**
LIABILITIES				
Financial liabilities held for trading	3,059,762	2,804,437	255,325	9.1%
Financial liabilities valued at amortized cost	28,265,297	27,308,344	956,953	3.5%
Deposits from	25,169,048	26,430,223	(1,261,175)	(4.8%)
financial sector	7,396,171	6,007,190	1,388,981	23.1%
non financial sector	17,772,877	20,423,033	(2,650,156)	(13.0%)
Own issuance	40,934	11,533	29,401	254.9%

	As at		Change	
PLN '000	**30.06.2011**	**31.12.2010**	**PLN '000**	**%**
Other liabilities	3,055,315	866,588	2,188,727	252.6%
Provisions	37,837	32,240	5,597	17.4%
Income tax liabilities	1,853	-	1,853	-
Other liabilities	1,896,193	879,584	1,016,609	115.6%
Total liabilities	**33,260,942**	**31,024,605**	**2,236,337**	**7.2%**
EQUITY				
Share capital	522,638	522,638	-	-
Share premium	3,009,396	3,031,149	(21,753)	(0.7%)
Revaluation reserve	(24,313)	(44,848)	20,535	45.8%
Other reserves	2,260,759	2,248,707	12,052	0.5%
Retained earnings	327,239	735,289	(408,050)	(55.5%)
Total equity	**6,095,719**	**6,492,935**	**(397,216)**	**(6.1%)**
Total liabilities and equity	**39,356,661**	**37,517,540**	**1,839,121**	**4.9%**

2.2.1 Assets

Gross loan receivables (including reverse repo)

	As at		Change	
PLN '000	**30.06.2011**	**31.12.2010**	**PLN '000**	**%**
Banks and other monetary financial institutions	1,754,616	2,273,632	(519,016)	(22.8%)
Non-banking financial institutions	432,588	698,228	(265,640)	(38.0%)
Non-financial business entities	7,460,796	6,693,528	767,268	11.5%
Individuals	5,957,697	6,119,157	(161,460)	(2.6%)
Government units	139,484	96,625	42,859	44.4%
Other receivables	9,549	21,492	(11,943)	(55.6%)
Total	**15,754,730**	**15,902,662**	**(147,932)**	**(0.9%)**

The following elements had impact on change in the balance of assets as at the end of June 2011 (compared to the end of 2010):

- increase of debt securities available-for-sale by PLN 3.6 billion (i.e. 27.7%), mainly resulting from the higher portfolio of bonds of the National Bank of Poland and purchase of bonds issued by Bank Gospodarstwa Krajowego for the amount of PLN 1 billion;
- drop of the balance of 'Cash and Balances with Central Bank' by PLN 2.0 billion related to the obligatory reserve management;
- slight decrease in the portfolio of loans, advances and other receivables by PLN 0.2 billion (i.e. 1.2%), which is the effect of a drop of receivables from banks and non-banking financial institutions (by PLN 0.8 billion i.e. 26%). On the other hand, an increase was recorded for the non-financial business entities (by PLN 0.8 billion i.e. 11.5%) and government units.

Debt securities portfolio

	As at		Change	
PLN '000	**30.06.2011**	**31.12.2010**	**PLN '000**	**%**
Treasury bonds	8,413,171	7,807,306	605,865	7.8%
Treasury bills	158,292	23,150	135,142	583.8%
Certificates of deposit and banks' bonds	2,262,421	572,757	1,689,664	295.0%

	As at		Change	
PLN '000	**30.06.2011**	**31.12.2010**	**PLN '000**	**%**
Issued by non-financial entities	74,742	165,075	(90,333)	(54.7%)
Issued by financial entities	-	63,111	(63,111)	-
NBP bills	7,300,000	5,994,140	1,305,860	21.8%
T O T A L	**18,208,626**	**14,625,539**	**3,583,087**	**24.5%**

2.2.2 Liabilities

Financial liabilities valued at amortized cost

	As at		Change	
PLN '000	**30.06.2011**	**31.12.2010**	**PLN '000**	**%**
Due to financial sector:	**7,392,804**	**6,004,508**	**1,388,296**	**23.1%**
banks and other monetary financial institutions	4,223,896	2,844,661	1,379,235	48.5%
due to non-banking financial sector	3,168,908	3,159,847	9,061	0.3%
Due to non-financial sector, including:	**17,758,474**	**20,406,055**	**(2,647,581)**	**(13.0%)**
corporate clients	10,672,426	12,046,099	(1,373,673)	(11.4%)
individuals	5,699,176	5,717,614	(18,438)	(0.3%)
Other liabilities, including repo, own issuance and accrued interest	**3,114,019**	**897,781**	**2,216,238**	**246.9%**
Total	**28,265,297**	**27,308,344**	**956,953**	**3.5%**

On the liabilities side, the biggest change was recorded for deposits from non-financial sector, which declined by PLN 2.7 billion, i.e. 13%, as compared to the end of 2010. The drop in deposits was reported mainly within the corporate segment and was related to lower amounts due to corporate clients (decrease by PLN 1.4 billion i.e. 11.4%).

The Group's liabilities were impacted also by other financial liabilities valued at amortized cost, which recorded an over threefold growth, i.e. by PLN 2.2 billion. The increase was caused mainly by liabilities related to repo transactions with banks.

2.2.3 Sources and uses of funds

Source of funds	**30.06.2011**	**31.12.2010**
Funds of banks and other monetary financial institutions	7,001,889	3,437,761
Funds of customers and government units	21,263,408	23,870,583
Own funds with net income	6,095,719	6,492,935
Other external funds	4,995,645	3,716,261
Total source of funds	**39,356,661**	**37,517,540**

Use of funds	**30.06.2011**	**31.12.2010**
Receivables from banks and other monetary financial institutions	1,754,416	2,273,138
Receivables from customers and government units	12,620,679	12,270,110
Securities, shares and other financial assets	20,871,788	17,105,451
Other uses of funds	4,109,778	5,868,841
Total use of funds	**39,356,661**	**37,517,540**

2.3 Equity and capital adequacy ratio

The value of the Group's equity as at the end of the first half of 2011 increased by 0.4% in comparison with the year-end of 2010. Significant changes in the size of equity included lowering the share premium by PLN 21.8 million and raising the revaluation reserve by PLN 20.5 million.

Equity*

PLN '000	As at 30.06.2011	As at 31.12.2010	Change PLN '000	Change %
Share capital	522,638	522,638	-	0.0%
Share premium	3,009,396	3,031,149	(21,753)	(0.7%)
Supplementary capital	1,761,156	1,746,107	15,049	0.9%
Revaluation reserve	(24,313)	(44,848)	20,535	45.8%
General risk reserve	497,500	497,500	-	0.0%
Other equity	(3,278)	(14,422)	11,144	77.3%
Total equity	**5,763,099**	**5,738,124**	**24,975**	**0.4%**

** Equity excluding net profit/(loss).*

Capital funds are fully sufficient to ensure financial security to the institution and the deposits it accepts, and to ensure its financial growth.

The table below presents financial data needed for calculation of capital adequacy ratio based on the consolidated financial statements of the Group.

Capital adequacy ratio*

PLN '000		30.06.2011	31.12.2010
I	**Own funds in total, including:**	**4,419,903**	**4,384,927**
	Reduction of basic and supplementary funds		
	investments in financial entities	56,578	56,332
	intangible assets, including:	1,286,636	1,285,757
	Goodwill	1,245,976	1,245,976
II	**Risk-weighted assets and off-balance-sheet commitments (bank portfolio)**	**16,650,674**	**15,766,225**
III	**Total capital requirements, including:**	**1,969,237**	**1,865,353**
	credit risk capital requirements (II*8%)	1,332,054	1,261,298
	counterparty risk capital requirements	119,552	98,223
	capital requirements for excess of exposures' concentration limit and large exposures' limit	61,135	44,066
	total market risk capital requirements	69,908	72,382
	operational risk capital requirements	360,531	361,165
	Other capital requirements	26,059	28,219
	Capital adequacy ratio (I/III*12.5)	**17.96%**	**18.81%**

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

As at 30 June 2011, capital adequacy ratio of the Group amounted to 17.96% and was by 0.85 percentage point lower comparing to the end of 2010, because of a slight increase of total capital requirement (primarily due to 6% higher credit risk capital requirement caused by a larger portfolio of risk-weighted assets and off-balance-sheet commitments). Own funds remained almost unchanged.

2.4 Earnings guidance for 2011

The Bank as the parent entity did not publish earnings guidance for 2011.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2011

1. Lending and other risk exposure

1.1 Lending

The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of customer's operations. Additionally, each borrower is followed up on an ongoing basis so that any symptoms of deteriorating creditworthiness may be detected early and subsequent corrective actions implemented. In the first half of 2011, the Group continued optimization of the lending process and adjustment of the loans offered to the actual needs of customers and the current situation in the market. The portfolio of individual customers' debts is managed by means of risk management models that take into account risk and profitability of the individual loan groups within the portfolio. In the credit risk assessment process, and in particular during scorecard analysis, information from the Credit Information Bureau (BIK) is used.

Loans due from non-banking sector, gross

	As at		Change	
PLN '000	**30.06.2011**	**31.12.2010**	**PLN' 000**	**%**
PLN loans	12,032,361	11,705,368	326,993	2.8%
FX loans	1,967,753	1,713,170	254,583	14.9%
Total	**14,000,114**	**13,418,538**	**581,576**	**4.3%**
Loans to non-financial sector	13,428,042	12,834,177	593,865	4.6%
Loans to financial sector	432,588	487,736	(55,148)	(11.3%)
Loans to public sector	139,484	96,625	42,859	44.4%
Total	**14,000,114**	**13,418,538**	**581,576**	**4.3%**
Non-financial business entities	7,460,796	6,693,528	767,268	11.5%
Individual clients	5,957,697	6,119,157	(161,460)	(2.6%)
Non-banking financial institutions	432,588	487,736	(55,148)	(11.3%)
Public administration units	139,484	96,625	42,859	44.4%
Other non-financial receivables	9,549	21,492	(11,943)	(55.6%)
Total	**14,000,114**	**13,418,538**	**581,576**	**4.3%**

As at 30 June 2011, credit exposure to non-banking sector was PLN 14,000 million, increasing by 4.3% in comparison to the figure of 31 December 2010. The biggest part of the non-banking loan portfolio are loans to business entities, which increased by 11.5% in the first half of 2011. Loans to individual clients amounted at PLN 5,958 million, decreasing by 2.6% in comparison to the end of 2010. This decrease of the individual clients' portfolio resulted from more stringent credit policies. Due to the macroeconomic situation the Bank implemented numerous preventive actions aimed at credit risk reduction. Regulatory changes (Recommendation T) added to strengthening of the credit policy.

The currency structure of the loans as at the end of June 2011 changed slightly as compared to the end of 2010. The share of foreign currency loans as at 30 June 2011 was 14.1% – a slight increase in comparison with the figure of 31 December 2010. It must be noted that loans are granted mainly in PLN. FX loans are granted to corporate clients, who are able – in the opinion of the Group – to bear the foreign exchange risk without affecting their financial condition.

The Group regularly monitors credit exposure concentration, trying to avoid situations where the portfolio might rely on a small number of customers. As at the end of June 2011, the credit exposure of the Group to non-banking sector was within the legal concentration limit.

Concentration of exposure: Non-banking customers

PLN '000	30.06.2011			31.12.2010		
	On-Balance Sheet exposure*	Off-Balance Sheet exposure	Total exposure	On-Balance Sheet exposure*	Off-Balance Sheet exposure	Total exposure
GROUP 1	545,334	245,293	790,627	572,962	228,113	801,074
GROUP 2	274,812	433,297	708,109	232,922	336,395	569,318
GROUP 3	252,392	216,799	469,191	253,504	224,849	478,353
GROUP 4	8	419,068	419,076	6	327,527	327,533
GROUP 5	43,043	319,779	362,822	15,413	348,278	363,691
CLIENT 6	208,915	104,369	313,284	1	17,818	17,819
GROUP 7	134,884	136,475	271,359	138,909	82,450	221,359
CLIENT 8	124,975	139,051	264,027	109,611	139,034	248,645
CLIENT 9	250,000	-	250,000	250,000	-	250,000
GROUP 10	66,568	167,293	233,861	30,123	215,746	245,869
Total 10	**1,900,931**	**2,181,424**	**4,082,356**	**1,603,451**	**1,920,210**	**3,523,661**

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

1.2 Loan portfolio quality

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

As at the end of June 2011 loans at risk of impairment constituted 12.5% of the entire portfolio, while as at 31 December 2010 they amounted to 14.8%. The decrease referred to the portfolio of clients subject to individual assessment.

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

	As at			
PLN '000	**30.06.2011**		**31.12.2010**	
Loans to non-banking sector, gross		Percent share		Percent share
Not impaired receivables	12,244,153	87.5%	11,428,023	85.2%
Receivables with recognized value loss	1,755,961	12.5%	1,990,515	14.8%
Assessed individually	673,270	4.8%	962,296	7.2%
Assessed collectively, on a portfolio basis	1,082,691	7.7%	1,028,219	7.7%
Total loans to non-banking sector	**14,000,114**	**100.0%**	**13,418,538**	**100.0%**

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

As at 30 June December 2011 the impairment of the portfolio was PLN 1,379 million, which represented a growth by PLN 20.5 million (i.e. 1.5%) compared to the end of 2010. The increase in impairment was recorded mainly in the portfolio assessed collectively: PLN 76 million i.e. 10.4% growth compared to the end of 2010. In the first half of 2011, impairment in the portfolio assessed individually declined by PLN 48.7 million i.e. by 10.7%, as compared to December 2010. The provision coverage ratio went down from 10.1% at the end of 2010 to 9.9% at the end of June 2011.

Impairment of assets: loans to non-banking sector

PLN '000	As at 30.06.2011	As at 31.12.2010	Change PLN '000	Change %
Incurred but not reported losses (IBNR)	163,946	170,751	(6,805)	(4.0%)
Impairment value for receivables:	1,215,486	1,188,170	27,316	2.3%
Assessed individually	408,487	457,215	(48,728)	(10.7%)
Assessed collectively, on a portfolio basis	806,999	730,955	76,044	10.4%
Total impairment	**1,379,432**	**1,358,921**	**20,511**	**1.5%**
Provision coverage ratio for total receivables	9.9%	10.1%		
Provision coverage ratio for problem receivables	78.6%	68.3%		

1.3 Off-balance sheet exposure

As at 30 June 2011 the Group's off-balance sheet exposure amounted to PLN 12,457 million, dropping by PLN 169 million (1.3%) from the figure reported at the end of 2010. The biggest change concerned committed loans which decreased by PLN 366 million (3.5%).

Contingent off-balance sheet liabilities from clients

PLN '000	As at 30.06.2011	As at 31.12.2010	Change PLN '000	Change %
Guarantees granted	1,797,982	1,771,282	26,700	1.5%
Import letters of credit issued	126,052	145,665	(19,613)	(13.5%)
Export letters of credit confirmed	5,374	1,647	3,727	226.3%
Lines of credit granted	9,967,930	10,333,933	(366,003)	(3.5%)
Securities issuance guarantees granted to other issuers	450,150	359,650	90,500	25.2%
Other	109,860	14,220	109,860	672.6%
Total	**12,457,348**	**12,626,397**	**(169,049)**	**(1.3%)**
Provisions for off-balance sheet exposure	15,908	10,538	5,370	51.0%
Provision coverage ratio	0.13%	0.08%		

The total value of collateral securing borrower's accounts or assets was PLN 2,025 million as at 30 June 2011 and PLN 1,825 million as at 31 December 2010.

In the first half of 2011 the Group issued 6,256 enforcement titles for the total amount of PLN 61.6 million, while in the first half of 2010 it issued 10,523 enforcement titles for the total amount of PLN 91.7 million.

At the end of the first half of 2011 the total value of guarantees or sureties issued by the Bank or its subsidiary to one entity was not higher than 10% of the Group's equity.

1.4 Major transactions with related entities, other than arm's length transactions

All transactions that the Bank or its subsidiaries closed in the first half of 2011 with its related entities were arm's length transactions.

2. External funding

At the end of June 2011 the Group's external funding totaled PLN 28,265.3 million and was higher by PLN 957.0 million (3.5%) than the figure reported at the end of 2010.

External funding

	As at		Change	
PLN '000	**30.06.2011**	**31.12.2010**	**PLN '000**	**%**
Deposits from financial sector	**7,396,171**	**6,007,190**	**1,388,981**	**23.1%**
Current accounts, of which:	1,936,086	1,492,350	443,736	29.7%
current accounts of banks	1,149,868	755,445	394,423	52.2%
Term deposits, of which:	5,456,718	4,512,158	944,560	20.9%
term deposits of banks	3,074,028	2,089,216	984,812	47.1%
Accrued interest	3,367	2,682	685	25.5%
Deposits from non-financial sector	**17,772,877**	**20,423,033**	**(2,650,156)**	**(13.0%)**
Current accounts, of which:	10,234,881	11,912,332	(1,677,451)	(14.1%)
corporate clients	4,995,222	5,617,986	(622,764)	(11.1%)
individual clients	4,504,016	4,320,530	183,486	4.2%
budgetary units	735,643	1,973,816	(1,238,173)	(62.7%)
Term deposits, of which:	7,523,593	8,493,723	(970,130)	(11.4%)
corporate clients	5,677,204	6,428,113	(750,909)	(11.7%)
individual clients	1,195,160	1,397,084	(201,924)	(14.5%)
budgetary units	651,229	668,526	(17,297)	(2.6%)
Accrued interest	14,403	16,978	(2,575)	(15.2%)
Own issuance	**40,934**	**11,533**	**29,401**	**254.9%**
Other liabilities	**3,055,315**	**866,588**	**2,188,727**	**252.6%**
Loans and advances received	535,751	574,780	(39,029)	(6.8%)
Liabilities related to repo transactions	2,332,590	113,534	2,219,056	1954.5%
Other liabilities	184,391	176,054	8,337	4.7%
Accured interest	2,583	2,220	363	16.4%
Total external funding	**28,265,297**	**27,308,344**	**956,953**	**3.5%**

The biggest change was related to the non-financial sector, which went down by PLN 2.7 billion (13.0%). The largest decrease was reported for government units and corporate clients, and it resulted from lower current account balances (by 1.9 billion or 24.5%) and also term deposit balances (decline by PLN 0.8 billion or 10.8%). On the other hand, liabilities related to repo transactions went up (by PLN 2.2 billion).

Liabilities to non-banking sector

	As at		Change	
PLN '000	**30.06.2011**	**31.12.2010**	**PLN '000**	**%**
Liabilities to:				
Individual clients	5,716,679	5,736,400	(19,721)	(0.3%)
Non-financial business entities	10,219,237	11,723,745	(1,504,508)	(12.8%)
Non-profit organizations	510,665	399,470	111,195	27.8%
Non-banking financial institutions	3,164,701	3,153,474	11,227	0.4%
Public sector	1,387,348	2,642,816	(1,255,468)	(47.5%)
Other liabilities	101,045	74,766	26,279	35.1%
Total	**21,099,675**	**23,730,671**	**(2,630,996)**	**(11.1%)**
PLN liabilities	16,502,674	19,624,801	(3,122,127)	(15.9%)
FX liabilities	4,597,001	4,105,870	491,131	12.0%
Total	**21,099,675**	**23,730,671**	**(2,630,996)**	**(11.1%)**

3. Corporate Banking

3.1 Summary of segment results

PLN '000	1st half of 2011	1st half of 2010	Change	
			PLN '000	%
Net interest income	321,368	351,510	(30,142)	(8.6%)
Net fee and commission income	167,020	148,847	18,173	12.2%
Dividend income	1,283	2,705	(1,422)	(52.6%)
Net income on traded financial instruments and revaluation	117,247	142,998	(25,751)	(18.0%)
Net gain on debt investment securities	11,334	57,692	(46,358)	(80.4%)
Net gain on investment equity instruments	-	277	(277)	(100.0%)
Net other operating income	14,694	22,023	(7,329)	(33.3%)
Total income	**632,946**	**726,052**	**(93,106)**	**(12.8%)**
General administrative expenses and depreciation	(306,834)	(315,309)	8,475	(2.7%)
Profit / (loss) on sales of tangible fixed assets	115	(99)	214	(216.2%)
Net impairment losses	1,183	(6,505)	7,688	(118.2%)
Share in "net"profits (losses) of undertakings accounted for under the equity method	316	(158)	474	(300.0%)
Profit before tax	**327,726**	**403,981**	**(76,255)**	**(18.9%)**
Cost / Income	**48%**	**43%**		

The main factors that determined the gross profit of Corporate Banking for the first half of 2011 as compared to the corresponding period of 2010 were:

- decline in net interest income as a result of lower income from debt securities and, to a smaller extent, a decline of income from the financial sector. The impact of the above factors was partially compensated by the increase of income from corporate loans (an effect of growing volumes);
- increase in net fee and commission income driven by higher income from brokerage activity (partially related to participation of the Bank and DMBH in major transactions on the capital market) and custody services;
- decline of income on trade financial instruments and revaluation mainly resulting from the Bank's proprietary management;
- decline of net gain on debt investment securities resulting mainly from macroeconomic changes (rise of interest rates);
- decline of general administrative expenses stemming mainly from lower staff expenses along with decrease in building maintenance and rent-related expenses;
- decline of net impairment losses on financial assets caused by higher level of released provisions for individually assessed impaired loans. It was mainly related to stabilization of customers' financial standing as well as decline of risk of delinquency in borrowers' payments.

3.2 Corporate and Investment Bank and the Capital Markets

3.2.1 Corporate and Commercial Bank

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

At the end of the first half of 2011 the number of corporate clients was 7,900, including 6,000 in the segment of enterprises (small and medium enterprises, large companies and public sector).

What Corporate Banking clients have in common is their demand for advanced financial products and consultancy on financial services. In that area, the Bank provides coordination of investment banking, treasury and cash management products and prepares loan offers involving diverse forms of financing. The innovativeness and competitiveness of the novel financing structures on offer come from a combination of local expertise and experience of the Bank and its cooperation within the global Citigroup structure.

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

Assets

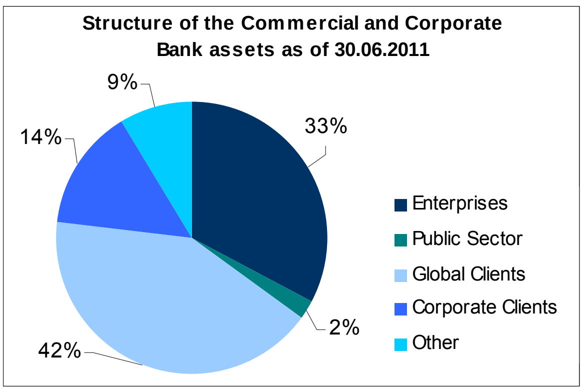
PLN million	30.06.2011 (1)	31.12.2010 (2)	30.06.2010 (3)	Change (1)/(2)	Change (1)/(3)
Enterprises, including:	2,506	1,957	1,561	28%	61%
SMEs	1,324	1,007	864	31%	53%
Large entities	1,182	950	697	24%	70%
Public Sector	156	112	94	39%	66%
Global Clients	3,207	2,818	2,572	14%	25%
Corporate Clients	1,099	1,297	1,412	(15%)	(22%)
Other*	664	845	1,122	(21%)	(41%)
Total Corporate and Commercial Bank	**7,632**	**7,029**	**6,761**	**9%**	**13%**

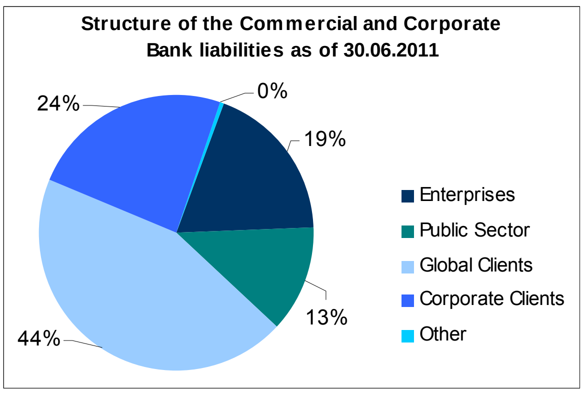
Liabilities

PLN million	30.06.2011 (1)	31.12.2010 (2)	30.06.2010 (3)	Change (1)/(2)	Change (1)/(3)
Enterprises, including:	2,692	3,110	2,668	(13%)	1%
SMEs	1,955	2,175	1,943	(10%)	1%
Large entities	737	935	725	(21%)	2%
Public Sector	1,811	2,958	1,934	(39%)	(6%)
Global Clients	6,345	7,866	7,326	(19%)	(13%)
Corporate Clients	3,442	2,940	4,040	17%	(15%)
Other*	37	73	315	(49%)	(88%)
Total Corporate and Commercial Bank	**14,327**	**16,947**	**16,283**	**(15%)**	**(12%)**

** Includes customers under restructuring and customers of Handlowy Leasing sp. z o.o., not being customers of the Bank.*

In the first half of 2011 assets of Corporate and Commercial Bank grew by 9% compared to the end of 2010. The highest growth was recorded in the segment of enterprises, which was connected with implementation of a competitive credit offer both in working capital financing and loans for long-term investments, as well as actions aimed at improving the lending process.





Key transactions in Corporate and Commercial Banking in the first half of 2011:

- Cyfrowy Polsat S.A. – in March 2011 the Bank, as one of the leading banks, together with a consortium of banks signed a loan agreement with Cyfrowy Polsat S.A. The agreement provides for a term loan for the maximum amount of PLN 1.4 billion and a revolving loan up to PLN 200 million. The loan incurred by Cyfrowy Polsat S.A. was one of the largest loans ever granted for the purchase of shares in a Polish company (the loan partially financed the acquisition of shares in Telewizja Polsat S.A.) and one of the largest syndicated loans organized on the turn of 2010/2011;

- Polkomtel S.A. – the Bank as one of the leading banks signed a revolving loan agreement for the total amount of PLN 1.2 billion. The Bank also acted as the Loan Agent and Loan Documentation Agent;

- Debt securities program – the Bank, as the sole Organizer, established the debt securities program for the value up to PLN 5 billion for Bank Gospodarstwa Krajowego S.A. ("BGK"), under which in February 2011 it distributed PLN 2 billion worth of bonds. It was so far the biggest issue of non-treasury debt papers aimed at market investors on the Polish market. In May 2011 the Bank concluded an agreement with BGK for purchase of bonds issued by BGK for PLN 1 billion with a redemption date occurring after 3 years from the date of issue;

- Revolving loan granted to PKN ORLEN S.A. in the total amount of EUR 2.6 billion – in May 2011 a consortium composed of 14 banks signed an agreement for financing arranged in the "Club Deal" formula. Bank Handlowy is one of the co-organizers;

- An annex to the agreement for inter-company bonds program was signed (increase of the program amount to PLN 1 billion), in order to increase the effectiveness of short-term liquidity management in one of companies from the fuel and energy sector;

- Winning key tenders for processing operations of companies from the automotive industry (including organization of the Commercial Papers program) and FMCG industry (including consultancy on mergers and acquisitions transaction).

Investment Banking

Bank's Investment Banking, launched in 2010, retained its strong position in the first half of 2011 in terms of advising on key transactions on capital market.

In the first half of 2011 the Investment Banking team, together with Dom Maklerski Banku Handlowego S.A. and Corporate Clients segment, completed two key transactions for the State Treasury: the Initial Public Offering (IPO) of Jastrzębska Spółka Węglowa S.A. and the Initial Public Offering of Bank Gospodarki Żywnościowej S.A. Introduction of Jastrzębska Spółka Węglowa on the stock exchange has been the largest in Poland and one of the three largest transactions of this type in Europe.

Furthermore, as regards the M&A area, the Investment Banking Team is present as a buy-side advisory for clients who are interested in the purchase of companies during the largest sales processes that are currently performed in Poland.

3.2.2 Treasury Products

The Bank is the leader on the corporate FX transactions market. In the ranking published in May 2011 by prestigious Euromoney magazine it took the first place – the third time in a row – in corporate FX trading. The ranking is developed on the basis of a market share estimated with data collected from clients-respondents.

In the first half of 2011 the performance of the Bank in FX transactions with corporate clients was very good. The value of trade grew by 20% compared to the first half of 2010. It was possible due to high quality of services and a rich product offer. Funds depositing and currency position management solutions offered by the Bank meet customer expectations in that area.

CitiFX Pulse, an electronic FX platform, was still very popular – in the first half of 2011 half of the clients making FX transactions took advantage of the possibility to make such transactions on their own via an electronic platform. It is an innovative and functional tool that offers a broad package of useful additions and, what is most important, gives an unlimited access to real-time quotations and the broadest range of currency pairs. Clients have a possibility to make transactions on their own for attractive prices, place buy and sell orders at a specified rate and have access to economic analyses and current news from the world and Poland.

In the first half of 2011 the Bank's performance was good also on the market of complex derivatives allowing the clients to hedge against the market interest rate change risk (IRS transactions) and to hedge commodity transactions. In the first half of 2011 the income of the Bank from those transactions tripled, compared to the first half of 2010.

The turnover volume of transactions on Treasury bonds concluded with financial institutions increased by over 65% in the first half of 2011, compared to the corresponding period of the previous year. Such result was achieved thanks to a competitive Treasury bonds purchase and sale offer aimed at institutional investors.

The Bank has a leading position as an arranger of the issue of bonds and deposit certificates for banks. According to the Rating&Market report by FitchRatings, as at the end of June 2011 the Bank had almost 44% share in that market.

3.2.3 Transaction Services

The Bank is a leading institution providing transaction banking services in Poland. In parallel with traditional banking services, it delivers modern liquidity management solutions as well as mass payments and receivables management products.

The Bank constantly introduces new solutions to its offer and opens new market segments. The Bank is also the leader in many areas. The Bank processes the largest number of direct debit transactions in Poland, it is the leader in the prepaid cards market in Poland. MicroPayment – a product dedicated for mass deposits is the leading solutions in the market and liquidity management products offered by the Bank are most advanced solutions. Custody services offered by the Bank are most frequently selected on the Polish market by foreign and domestic financial institutions. The Bank carries on the development of trade finance offer – in the first half of 2011 this product group reached the turnovers of PLN 2.6 billion i.e. it was by 123% higher than in the first six months of the previous year.

The Bank's priority is to improve the range of offered transactional services, so that it fully meets clients' needs and sets new trends in the banking industry in Poland. This objective will be achieved with the use of services of the Research and Development Centre in Łódź. It is the first banking research centre in Poland. The Centre will cooperate with schools of higher education – letters of intent have been signed with the Technical University of Łódź and the University of Łódź. The Centre has already recorded its first successes, e.g. participation in creating Cash2Moblie product. The service using prepaid cards and internet banking mechanism was employed to serve clients who so far have operated based on cash sale. Cash2Mobile will significantly reduce troublesome cash operations, while providing immediate settlement of transactions. The Bank was the first institution in the world to develop such service.

Other services are still added to the Bank's offer – in the first half of 2011 the prepaid cards offer was expanded by two new functionalities: partial automation and presentation of the card balance after each transaction. Those are global pioneer solutions in this segment.

The market leading offer of liquidity management products was expanded by the "net balance" service allowing for serving payments in cash pooling structures. A recently implemented collective transfer is an ideal solution for clients who want to make large-volume salary payments in a fast and secure manner.

A significant improvement for Bank's clients using CitiDirect was the launch of the CitiDirect.pl portal – a rich source of training materials, documents and practical guidance.

The Bank's transaction services are recognized in the market. An achievement worth mentioning is receiving eight Europroduct awards. In the 16th edition of the Europroduct contest the Bank was awarded for Reverse Factoring, Net Balance, Integrated Service of Receivables, Prepaid Cards, Guaranteed Cards with Direct Debit and Cash Services. Two services were awarded – CitiDirect and Corporate Customer

Service Department. The contest has been run under the patronage of the Minister of Economy, Polish Enterprise Development Agency (PARP) and the Chancellery of the Prime Minister.

Deposits and current accounts

Current account is the basis for full use of the services the Bank offers. One of the key elements of pursuing the Bank's strategy is focusing on acquiring and servicing operating accounts – i.e. bank accounts hosting the crucial part of operational cash flow of their owners. Within the strategy the Bank introduced improvements that minimize formalities for a client, connected with opening an account with the Bank. There was established a dedicated unit that supports clients in preparing the full account opening documentation, assists in preparing documents for transferring a bank service from another institution. On request of a client the Bank informs specified counterparties, the revenue office and Social Insurance Institution about a new account number.

The funds accumulated by the Bank's customers in current accounts, which are not needed to finance current activities, may be deposited in term deposits.

Besides term deposits, the Bank's offer incorporates the following types of deposits:

- negotiated deposits – the Bank enables clients holding significant cash surpluses to agree an individual interest rate though telephone orders consisting in direct negotiations with the Bank's representative,

- automatic deposits – after placing an order to create automatic deposits and agreeing the interest rate, the Bank opens an overnight deposit on every working day,

- blocked deposits – enable to secure funds for a beneficiary, which increases business and financial credibility of a client. The product is used to secure less complicated transactions. An escrow account is designated for more advanced constructions.

Liquidity management products

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

- actual cash pooling;
- virtual cash pooling;
- net balance;
- actual cash pooling without reverse bookings.

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

The offer of the Bank was expanded by a new product – "net balance" allowing for making a large number of outgoing transfers with no need of manual supplies within the structure. The new product was appreciated on the market, which was confirmed by an award in the 16th edition of the Europroduct contest run under the patronage of the Minister of Economy and Polish Enterprise Development Agency (PARP).

MicroPayments

In the first half of 2011 the Bank continued to strengthen its position of the leader in the market segment in which it offers the MicroPayments product.

MicroPayments are used by institutions and entities which accept cash deposits from various payers and have the obligation of returning these together with accrued interest. This module supports calculation of historical interest value, in other words, the allocation of interest amounts to respective past deposits of the payer.

In the first half of 2011 a new version of the product was launched, which offers many previously unavailable functionalities: various kinds of interest capitalization (daily, weekly, monthly, half-yearly, yearly), improvements in report generation, micro-accounts in foreign currencies and various ways of payment into accounts.

Courts and prosecution administrations are the clients which use that product. MicroPayment services are also offered to clients from beyond the public sector – the solution of the Bank is an excellent tool to serve bidding procedures.

Electronic banking

CitiDirect is the primary electronic banking system the Bank offers to its corporate clients. During the first half of 2011 the Bank carried on its improvements of the CitiDirect platform and implemented the project to improve the effectiveness of its use. The Bank implemented "collective transfers" dedicated for payroll transfers. In addition, it launched the CitiDirect.pl portal that responds to the clients' expectations for a one-stop access to all information about the system.

Relevant information about electronic banking in the first half of 2011:

- The total number of transactions processed electronically by CitiDirect system in the first half of 2011 was over 11.9 million, which means a 3% growth compared to the first half of 2010;
- In the first half of 2011 the number of corporate clients using the system actively was almost the same as in the first half of 2010 i.e. 4,800;
- At the end of the first half of 2011 the number of corporate clients activated in CitiDirect grew by 5% compared to the end of the first half of 2010 and exceeded 11,000;
- The share of bank statements delivered to customers through electronic means only stayed at a high level of around 90%.

Card products

The Bank is an unquestionable leader on the pre-paid card market in Poland. Its share in the market is 44%. The Bank's prepaid cards are most frequently used under loyalty, promotional and incentive programs. Prepaid cards are also an excellent tool for social benefits distribution.

In the first half of 2011 the Bank carried on active promotion of its prepaid cards among corporate clients, by taking part in the CEE Cards 2011 Conference in Budapest and the Customer Loyalty Summit in Krakow. During those conferences potential clients were able to learn about advantages of the product.

To make Prepaid Payment cards more attractive, the Bank implemented new innovative functionalities such as partial automation and card balance presentation after each transaction. The Bank was the first bank in Europe to provide those functionalities for its clients.

The Bank continues to strengthen its position in the business cards segment by ongoing offer development. In the first half of 2011 the share of business cards (Visa Business charge and guarantee) was 16%, including share in non-cash transactions (20%) and non-cash transactions abroad (23%). Visa Business debit cards issued to accounts maintained in EUR and USD are very popular among clients.

One of the advantages of the Bank's business and pre-paid card offer is its largest rebate program for cards of this type in Poland. Under the rebate program, business and pre-paid card users may receive discounts up to 50% in over 1.5 thousand sales outlets all over the country.

The Bank expanded its offer by adding an option of issuing corporate cards with customized graphic design prepared for a client. This offer is directed at companies which are interested in Visa Business charge cards, Visa Business guarantee cards or Visa Business debit cards. Customers interested in such a solution receive auxiliary materials for the preparation of a complete card design and production files.

The Bank also introduced direct debit for Visa Business guarantee cards. The purpose of this new functionality is to streamline the process of the credit card repayment by an employee and executing the payment by its due date. Using the direct debit for guarantee cards is also beneficial for the company because of quicker employee card debt settlement, elimination of charging the company account in the case of default on payment by the users, and simple initiation of the service.

Unikasa

Unikasa is a mass payments market brand of high recognition. It is perceived as a modern product that facilitates servicing of the Bank clients' receivables while allowing payers settlement of their bills for products and services in the most frequently visited locations, such as hyper- and supermarket chains throughout the country. The Bank's counterparties can also choose to use the Unikasa Network infrastructure to form their own branded networks. Unikasa is now present in over 383 points throughout Poland. The service is also available in over 1,000 points branded with the Unikasa logo.

Domestic and foreign bank transfers

In the first half of 2011 the Bank processed by 3% more domestic and by 11% more foreign transfers, compared to the first half of 2010.

Electronic Post Office Money Transfers

Electronic Post Office Money Transfer is a product aimed at corporate clients who transfer money in cash to individuals. The product becomes more and more popular among clients of the Bank. Excellent service provided by the Bank once again resulted in a growing number of processed post office money transfers. In the first half of 2011 the Bank realized 18% more transfers than in the first half of 2010.

Direct Debit

The Bank provides its clients with comprehensive debt management service. One of the segments of that service market, in which the Bank holds a dominant position, is the Direct Debit market. Besides a traditional solution, the Bank offers a Comfort Direct Debit – a unique solution in Poland, consisting of informing debtors about the approaching payment term via SMS.

In the first half of 2011 the Bank improved the system for distribution of direct debit mandate forms to debtor's banks, by implementing EPZ module of Ognivo system of the National Clearing House. The automation of mandate distribution resulted in the improvement of the service process efficiency and significantly reduced the activation time for clients.

In the first half of 2011 the Bank maintained its leading position by settling the highest number of transactions as a creditor's bank.

SpeedCollect

SpeedCollect is a service that allows automatic booking of receivables. It is an excellent solution for companies with large bases of customers making frequent payments and it makes it possible to manage their counterparties' settlements effectively. The Bank amassed over fifteen years of experience in servicing SpeedCollect. It was the first entity in the Polish market to include a product of this type in its offer.

In the first half of 2011 the Bank implemented a new innovative functionality consisting in informing transfer payers about crediting the payment to the beneficiary's account.

In the first half of 2011 the Bank maintained its leading position in the market as regards the processed volume of transactions.

Cash products

The Bank provides its clients with comprehensive cash management services. The highest volume of cash transactions serviced by the Bank is over-the-counter deposits. The first half of 2011 was another period of dynamic growth in the volume of cash deposited with the Bank by corporate clients, as compared to the first half of 2010. A vast majority of over-the-counter deposits is in a closed form, i.e. it is delivered to the Bank in sealed packages and counted without the client being present. The share of closed deposits in total over-the-counter deposits is growing systematically and in the first half of 2011 it was nearly 99%.

The Bank offers over-the-counter deposits in different variants, suited to the clients' expectations. A new form available within the transaction services is the option of Low Cost Cash, i.e. a deposit in ordered bank bills, with specific quality conditions fulfilled. From the first half of 2011 Low Cost Cash is available in two options: ATM deposits and ATM coin deposits. Over-the-counter deposits may be expanded with a range of complementary solutions, such as cash transport, purchase of safe envelopes for depositing cash, electronic document transfer, SpeedCash (SpeedCollect for over-the-counter payments) or bank vault services.

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

The Bank also provides services designed for a more restricted group of clients, such as replacement cash services and replacement branch services, directed at the public sector. Currency purchase and sale services offered to other banks (i.e. providing) become more and more popular.

EU Office

In the first half of 2011 the EU Office pursued its strategy in the area of EU consultancy and concentrated on reaching new clients with the offer and on making the existing clients more active. The result of this campaign was growing interest in the offer among many clients.

An important element of the work of the EU Office in the first half of 2011 was promotion of a technological loan. In the effect of those activities many clients got acquainted with the mechanism of that instrument in the context of the latest changes derived from the act on supporting innovation.

Trade Finance Products

Trade finance products play a significant role in the Bank's transaction services. Key elements of that offer are recourse and non-recourse factoring.

The offer of the Bank becomes more and more popular among client, thus allowing to gradually increase the Bank's market share in trade finance products – as per the data available at the end of the first quarter of 2011, the share of the Bank in the trade finance products market in terms of receivables discount transactions turnover was 6.4%. The Bank had record turnover in that area in the first half of 2011 – it exceeded PLN 2.6 billion and was by 123% higher than in the first half of 2010. At the same time Bank's assets in the area of trade finance products at the end of the first half of 2011 were by 32% higher compared to the second half of 2010 and by 143% higher compared to the first half of 2010.

It is worth noticing that reverse factoring, introduced to the offer of the Bank in 2010, is very much popular among clients. After a relatively short time of implementation, the solution was used by a dozen or so clients and the level of financing was PLN 55 million.

The Bank has a long-term experience and high quality structured trade finance services to its credit. Significant events in the first half of 2011 in that area included:

- two structured financing agreements for syndicates implementing the construction of a motorway commissioned by the General Directorate for National Roads and Highways;
- carrying on a structured factoring transaction for one of the biggest fuel manufacturers in Poland, joined by two new counterparties – global clients of the Bank.

3.2.4 Custody services

The Bank has a leading position on the market of banks-custodians in Poland. It offers custody services to both foreign institutional investors and domestic financial entities, including in particular pension funds, investment funds and unit-linked insurance funds.

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

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

As at 30 June 2011 the Bank maintained 14,200 securities accounts.

During that time the Bank was the depositary for five open pension funds: AMPLICO OFE, AVIVA OFE AVIVA BZ WBK, ING OFE, Pekao OFE, Nordea OFE and two employee pension funds: Employee Pension Fund PZU "Sunny Autumn" (*Pracowniczy Fundusz Emerytalny PZU "Słoneczna Jesień"*) and Employee Pension Fund of Telekomunikacja Polska S.A.

The Bank also acted as the depositary of investment funds and subfunds, managed by the following Investment Fund Companies: BZ WBK TFI S.A., PKO TFI S.A., PIONEER PEKAO TFI S.A., LEGG MASON TFI S.A. and AVIVA INVESTORS POLAND TFI SA.

3.2.5 Brokerage services

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

In the first half of 2011 DMBH acted as an intermediary in 10.67% of secondary equities trading (excluding calls). Over the analyzed period the value of equity trades executed via DMBH on the Warsaw Stock Exchange was PLN 29.7 billion (down by 13.9% compared to the corresponding period of the previous year). The value of trading on WSE went up by 23.6% compared to the corresponding period in 2010. It should be underlined that a lower share in trading than in the same period of the previous year did not have an adverse effect on performance of DMBH. Net profit for the first half of 2011 was PLN 19.0 million, as compared to PLN 12.2 in the first half of 2010. Such positive growth was possible as DMBH became more active in investment banking.

The number of brokerage accounts with DMBH at the end of the first half of 2011 amounted to 8,989 (as compared to 8,724 accounts at the end of 2010). During the reporting period the number of accounts grew systematically month by month. The highest growth was recorded in May 2011 – it was connected with the initial public offering of Bank Gospodarki Żywnościowej S.A. and investment certificates of Legg Mason Akcji Skoncentrowany FIZ – and in June (initial public offering of Jastrzębska Spółka Węglowa S.A.).

At the end of the first half of 2011 DMBH was the Market Maker for 30 companies accounting for 7.2% of all the shares listed on the WSE. Additionally, the Own Investments Section acts as the Market Maker for futures contracts for the WIG20 index. DMBH as a Market Maker is one of the leading brokerage houses as far as the number of companies and turnover value are concerned.

Key transactions of DMBH in the first half of 2011:

- Public call for shares of BZ WBK S.A., completed in April 2011, at the value of PLN 15.9 billion; DMBH served as a transaction intermediary;

- The Initial Public Offering of BGŻ S.A. completed in May 2011, at the value of PLN 312 million; DMBH acted as a Global Offering Co-coordinator and Co-Bookrunner;
- The Initial Public Offering of Jastrzębska Spółka Węglowa S.A. at the value of PLN 5.37 billion; DMBH acted as a Global Offering Co-coordinator and Co-Bookrunner; the company debuted on the WSE on 6 July 2011;
- Non-public transaction of sale of Polish bank's shares, carried out in May 2011, at the value of PLN 158.8 million; DMBH served as a transaction intermediary;
- Public offering of the C series of Investment Certificates of Legg Mason Akcji Skoncentrowany FIZ, concluded in June 2011, at the value of PLN 38.5 million; DMBH acted as the Offerer.

Summary Income Statement and Balance Sheet *

Company's Name	Headquarters	Participation interest of the Bank in equity %	Balance sheet as at 30.06.2011 PLN '000	Equity as at 30.06.2011 PLN '000	Net financial result for 01.01-30.06.2011 PLN '000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	695,019	104,115	18,975

** Unaudited data*

3.2.6 Leasing

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

The value of new leases contracted in the first half of 2011 was PLN 163.9 million, compared to PLN 72.6 million worth of contracts executed in the first half of 2010, which means an increase by 126%.

The value of leased assets in the first half of 2011 totaled PLN 131.5 million. The structure of assets was as follows:

- the share of transport vehicles stood at 72% of the total financed chattels,
- the share of machinery and equipment constituted 28% of the total financed fixed assets.

Net value of leases

PLN million	1st half of 2011	1st half of 2010	Change	
			PLN million	%
Value of leases contracted in the period, including:	131.48	71.45	60.03	84%
for vehicles	94.66	36.67	57.99	158%
for machinery and equipment	36.81	34.78	2.04	6%

In the first half of 2011 the Company pursued its strategy, the main assumption of which is selling leasing products to the clients of the Bank and strengthening the Handlowy-Leasing brand recognition among those clients. Additionally, actions were taken to recover VAT from reinvoiced insurance, the recognition of which undermined the earnings for the fourth quarter of 2010.

In the first half of 2011 efforts were made to expand the HL offer for new groups of clients. The Company implemented leasing for Public Sector Units, including government administration and local government units, and their subsidiaries. The offer was made also to non-clients of the Bank.

In the first half of 2011 the Company performed actions to activate consumer bank clients, mainly from the micro companies segment.

In the area of operating effectiveness of HL, the Company implemented the "Automated Interface" project allowing to import data generated from the Company's operating system to the client's system.

Summary Income Statement and Balance Sheet *

Company Name	Headquarters	Participation interest of the Bank in equity %	Balance sheet as at 30.06.2011 PLN '000	Equity as at 30.06.2011 PLN '000	Net financial result for 01.01-30.06.2011 PLN '000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	807,948	153,071	2,707

**Unaudited data*

4. Consumer Banking

4.1 Summary of the segmental results

PLN '000	1st half of 2011	1st half of 2010	Change PLN' 000	Change %
Net interest income	373,921	395,352	(21,431)	(5.4%)
Net fee and commission income	170,292	167,999	2,293	1.4%
Dividend income	4,374	3,141	1,233	39.3%
Net income on traded financial instruments and revaluation	13,432	13,647	(215)	(1.6%)
Net gain on investment equity instruments	-	2,239	(2,239)	(100.0%)
Net other operating income	(10,766)	(18,772)	8,006	(42.6%)
Total income	**551,253**	**563,606**	**(12,353)**	**(2.2%)**
General administrative expenses and depreciation	(407,927)	(361,289)	(46,638)	12.9%
Profit/(loss) on sale of tangible fixed assets	2,161	(118)	2,279	(1,931.4%)
Net impairment losses	(58,496)	(159,678)	101,182	(63.4%)
Profit before tax	**86,991**	**42,521**	**44,470**	**104.6%**
Cost/Income	**74%**	**64%**		

The main factors that determined gross profit of Consumer Bank in the first half of 2011, as compared to the corresponding period of 2010, were:

- decline in net interest income mainly through a lower exposure in cash loans in selected customer segments in line with the Bank's strategy. The decline was partially compensated by lower interest expenses, in the effect of consistent focus on operating accounts coupled with pricing policy regarding time deposits and saving accounts;
- increase in net fee and commission income, chiefly in the area of credit and payment cards (mainly the effect of lower fee expenses);
- growth of expenses mainly related to higher costs of external sales agencies (driven by development of direct sales and telesales channels) as well as growth of expenses related to intensified marketing efforts to increase sales of credit cards and operating accounts (Citibank MasterCard World and ZTM Card, among others);
- significant decline of net impairment losses, caused by improving quality of consumer loans and credit cards portfolios, partially due to earlier changes in credit policy (such as strategic decrease of higher risk segments in consumer loan portfolio).

4.2 Selected business data

	1st half of 2011	1st half of 2010	Change
Number of individual customers	985,845	1,035,105	(49,260)
Number of current accounts, including:	628,483	606,998	21,485
number of operating accounts	153,742	113,945	39,797
Number of newly acquired operating accounts during the reported period	60,631	39,169	21,462
Number of saving accounts	217,882	199,404	18,478
Number of credit cards, including:	871,299	950,531	(79,232)
co-branded cards	483,932	541,954	(58,022)
Number of debit cards, including:	468,882	456,976	11,906
PayPass cards	269,742	76,361	193,381

4.3 Business activities and achievements

Credit Cards

As at the end of the first half of 2011 the number of credit cards was 871,300, which means a fall by 8.5% compared to the first half of 2010. The decrease in the size of the portfolio was due to the increase in credit requirements related to, among others, Recommendation T implemented by the Polish Financial Supervision Authority in 2010. Despite the decrease in the number credit cards, the share in the market of issued credit cards as at 31 March 2011 was 10.4% and increased during the year from 9.8% as at 31 March 2010.

In the first half of 2011 the following changes were made in the range of the credit cards offered by the Bank:

- Citibank MasterCard Word launched on 18 February 2011 is the first multi-partner card in the Bank's portfolio. The card offers benefits characteristic for rebate cards and loyalty programs under cooperation with seven partners whose brands are most popular among the target group of the Bank;

- Citibank MasterCard World Signia Ultime was launched on 15 June 2011 in cooperation with LOT Polish Airlines and together with Miles & More loyalty program. It is the most prestigious card in the Bank's offer, aimed at clients with the highest income. Ultime card offers a range of additional services: concierge service, assistance, insurance package, Miles&More program, Priority Pass card and discount and A La Carte program;

- New functionality of credit cards in the form of contactless payments – MasterCard PayPass and Visa PayWave was launched in May 2011. The contactless payment functionality is available for new credit cards and it will be gradually implemented for the entire card portfolio;

- In the first half of 2011 actions were taken to increase the sale of Comfort Installment Payment Plan in the early stage of customer relations, facilitated among other things by allowing clients to apply for the Installment Payment Plan as soon as when filing in a credit card application. Additionally, the Bank encouraged clients to divide credit card transactions into installments on their own through Citibank Online.

For the purpose of further popularization of Citibank credit card payments, the Bank carried out numerous promotions and contests where the clients could win a trip from TUI and ClubMed offers, concert tickets as well as in-kind and cash prizes.

Bank accounts

In the first half of 2011 the Bank concentrated on acquiring active clients and it realized new initiatives to make the existing clients more active. It also introduced many solutions that enhanced quality and reduced costs.

- Current accounts: at the end of the first half of 2011 the number of current accounts held by individual clients exceeded 628,000, including over 445,000 accounts denominated in PLN and 183,000 accounts denominated in foreign currencies. The total balance in current accounts exceeded PLN 2 billion. Consequently, there was a significant growth compared to the corresponding period of the previous year as the total balance of current accounts as at the end of the first half of 2010 amounted to PLN 1.74 billion, and their number was 607,000 (including 408,000 accounts in PLN and 199,000 in foreign currencies).

- Savings accounts: the number of savings accounts totaled over 217,000. The total balance of funds in the savings accounts was approx. PLN 2.5 billion, compared to 199,000 savings accounts with the total balance of PLN 2.64 billion in the corresponding period of 2010. In May 2011 the Bank raised premium interest rate on Savings Account. Clients who pay using the card to their account might have interest rate of 3.73%.

- Changes in the offer:

  - In the first quarter 2011 the Bank offered its existing and new clients an attractive 3-month deposit in PLN with an interest rate of 4% p.a. The promotional interest rate covered new funds deposited by the clients. In the same time the Bank promoted long-term deposit products among other by expending the offer by new 24-month deposits in PLN. In March 2011 the Bank reduced the interest rate on deposits in foreign currencies (CHF, USD and EUR). The introduced changes improved the income effectiveness of savings accounts and deposits;
  - In May 2011 the Bank extended its offer with another city payment card – this time it launched Citibank City Card in cooperation with Wrocław city and Mennica Polska S.A. Apart from the convenience of using one card (a card to an account integrated with Urbancard – Wrocław City Card), the passengers on public transport in Wrocław can take advantage of a special discount on tickets. Citibank City Card is the first such proposal on the Wrocław market.

Credit products

Cash Loan

In the first half of 2011 the Bank focused on increasing the share of new clients in the cash loan portfolio. In mid-February 2011 it launched a marketing campaign – promotional interest rate of 9.99% p.a. for each client who took advantage of a new cash loan offered by the Bank. The action was continued until mid-May and allowed to increase by 40% the share of new clients in the sale of that product, as compared to the fourth quarter of 2010 when the price promotion was not available. When the special offer expired, the Bank introduced a new attractive pricing for the cash loan, that made the offer dependent on the client's profile, its affiliation to a specified occupational group, amount of granted loan and that rewarded for holding and active usage of other products of the Bank.

Mortgage Products

- As at the end of the first half of 2011, the total balance of the mortgage portfolio amounted to PLN 430.8 million, which means an increase by 35.1%, compared to the balance as at the end of 2010.

- Distribution channels: as at the end of the first half of 2011 the Bank had over 1,400 agreements with external partners generating contacts to clients interested in mortgage products. In April 2011 the Bank concluded a cooperation agreement with Open Finance – the largest financial advisory firm in Poland. Furthermore, a unique "Partner Profit Program" for partners cooperating with the Bank was implemented.

- One of the key elements of the mortgage offer of the Bank in the first half of 2011 remained the process that assumed 14 days for loan disbursement from the day of filing complete loan documentation.

- The sale of loans was supported by promotional activities, including a TV campaign and other marketing campaigns in which external partners participated.

Credit Line

In the first half of 2011 the Bank changed its offer and the credit line acquisition process, which contributed to a significant growth in sales. The growing acquisition resulted from effective implementation of the strategy to offer accounts on which salaries are received, with an option to use an overdraft on which no interest is charged for up to 7 days of each calendar month.

In June 2011 two changes were implemented in the credit line offer: promotion for Citibank At Work clients consisting of cancelling an annual fee and a new Credit Line offer for the CitiGold clients, allowing for a loan up to PLN 100,000.

Insurance and Investment Products

- As at the end of the first half of 2011, the total value of assets under management in investment-linked products (including deposit certificates, dual currency investments, unit-linked deposits and insurance products) bought by clients through the Bank was higher by 0.6%, compared to the corresponding period of 2010. The highest increase in terms of value of assets under management was recorded in mutual funds. The value of these assets totaled PLN 2.3 billion as at the end of the first half of 2011, compared to PLN 1.7 billion as at the end of the corresponding period of the previous year, which represented an increase by 34.3%.

- Changes in the offer:

  - In the first half of 2011 the mutual funds range was expanded with 20 new local funds and 4 foreign funds. As at the end of the first quarter of 2011 the range offered by the Bank included 148 funds – managed by 7 local mutual funds corporations and 4 foreign investment firms;

  - In February 2011 the Bank expanded its offer of structured products by introducing new types of structured bonds with full or conditional capital protection, including bonds with an autocall option and coupon bonds;

  - Life insurance with unit-linked insurance funds with a regular premium (Optimum Investment Plan) was made available in April 2011 also to holders of Citibank credit cards – so far the product was available only to Bank account holders. Additionally, in June 2011 a promotional offer of that product was introduced, providing a client with a bonus of 10% of premiums payable in the first year of the insurance agreement.

- Offer of brokerage services: in the first half of 2011 the Bank participated in two subscriptions for closed investment funds – FIZ Allianz Platinum and FIZ Legg Mason and accepted orders for PLN 38.4 million and PLN 11.3 million, respectively, constituting 11% of total subscriptions for FIZ Allianz Platinum and 29% of subscriptions for FIZ Legg Mason accepted by all eligible entities in the market.

5. Achievements of respective distribution channels

5.1 Branch network

As at the end of the first half of 2011, the branch network of the Bank comprised 152 outlets and included the L type outlets (formerly the Corporate Bank, the CitiGold Wealth Management outlets and the Investment Centre), the M type outlets (former multifunctional outlets) and the S type outlets (former CitiFinancial branches).

In the first half of 2011 the Bank continued to optimize its branch network. The process contributed to increased operational efficiency, improved sales, optimized use of human resources and infrastructure, and rationalization of the Bank’s property management costs.

The branch network optimization in the first half of 2011 included the following:

- due to circumstances preventing the extension of the lease agreement, M type outlet located in Warsaw at Garibaldiego 4 was closed with the customer/client services transferred to the existing outlets in Warsaw. At the same time the Bank works over opening a new outlet that will offer the full range of products;

- one branch was consolidated, which previously operated mainly under the CitiFinancial brand. Actions here involved the transfer of these outlets' operations to an expanded M type branch, which offers a complete range of products;

- in 25 branches works were implemented to improve their image and functionality in compliance in the applicable standards;

- the Bank completed the replacement of present ATMs with the deposit function to ATMs with a new functionality allowing for posting of payments both to an account and a credit card in real time. Funds deposited by a customer in an ATM are available on his or her account or credit card directly after the payment. At the same time new ATMs are gradually equipped with a function allowing for their use by blind people.

Number of branches

	1st half of 2011	1st half of 2010	Change
Number of outlets:	**152**	**158**	**(6)**
L type	43	43	-
M type	89	90	(1)
S type	20	25	(5)
Other sales / customer service outlets:			
Polkomtel sales points	-	61	(61)
Plus outlets	14	10	4
Outlets of financial brokers (Open Finance, Expander)	123	-	123
Airports	1	5	(4)
BP petrol stations	12	5	7
Shopping centers	26	7	19
ZTM points	13	-	13
Own ATMs	133	154	(21)
Euronet ATMs with logo of 'Citi Handlowy'	900	789	111
Unikasa	383	425	(42)

Indirect and Direct Customer Acquisition

- As at the end of the first half of 2011 the network of direct sales units comprised 67 sales outlets, including stands located in shopping centers (26), Plus showrooms (14), BP fuel stations (12), units selling city cards (13) and a stand at Okęcie airport in Warsaw and in Arkady in Sopot. Owing to network optimization and changes in the business model, in the first half of 2011 the Bank managed to significantly improve the effectiveness of sellers in the direct sales channel.

- The most significant initiatives under the direct sales channel was launch of a new product in mid-February 2011 – Citibank MasterCard World®, launch of a new mobile sale channel for the Cash Loan and sale of Citibank City Card in 8 direct sales points in the territory of Wrocław.

- In June 2011 the cooperation with the network of agents and sub-agents of Polkomtel was ended. The withdrawal from this channel of distribution did not result in any additional costs.

Citibank at Work

Citibank at Work is a sales channel dedicated to employees of corporate clients of the Bank.

The first half of 2011 was a period of strengthening cooperation of the Citibank At Work Department with employees of the Bank's corporate clients by selling products on special conditions. The leading product was the personal account.

Citibank at Work allowed to acquire over 6,000 clients with regular salary inflows to the account and the total acquisition covered over 14,000 products, constituting a growth by 400% and 200%, respectively, when compared to the first half of 2010.

In the first half of 2011 the Financial Seminars initiative was continued, aimed at explaining the banking services and Bank products. The project covered 300 presentations for over 3,000 potential clients.

Perspectives for development (network optimizing)

In the perspective of development, in 2011 the Bank will continue to work to ensure top quality customer service. At the same time it will react to changes taking place in the market.

In accordance with the assumed strategy, in 2011 all branches in G9 markets (biggest towns in the country, strategic from the point of view of development of consumer bank) and Tier 1 (another group of markets, important from the profitability point of view) the Bank will continue its "Citi Grow" program aimed at standardization of sales quality and customer service. The network of bank outlets will be actively supported by remote customer service channels (CitiPhone, internet platform, TeleSales), providing 24h transaction services and sales of banking services tailored to customer needs.

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

5.2 Internet, Mobile and Telephone Banking

Mobile Banking

In the first half of 2011 the Bank expanded its current mobile banking offer by introducing a mobile telephone banking application with the Android and iOS (iPhone) operating systems for all its retail clients. Together with a mobile banking service in the form of application, the Bank made available a breakthrough solution of fast telephone transfers. B2T (Bump to transfer), based on the technology developed by BumpTechnologies, allows to send money from the account of one Citi Handlowy client to another one by telephone "bumping".

Citi Mobile application contains all functions so far available in its browser version and allows the clients e.g. for checking the balance and history of their account, savings account, deposit or credit card, making defined internal and domestic transfers, repay the credit card debt and top up a mobile telephone card.

At the end of the first half of 2011 Citi Mobile (browser and application) was used by over 44,000 clients, including 19,000 who logged to Citi Mobile for the first time in the reporting period. The Citi Mobile application was down-loaded over 14,000 times as at the end of this period.

According to the statistic data of the Association of Polish Bank for the first quarter of 2011, the share of the Bank in the volume of transfers was 28% on a value basis and 19% on a quantitative basis (number of ordered transfers).

The Bank wants to develop its mobile banking by making the Citi Mobile application available for more operating systems and by offering new services taking advantage of the telephone capabilities.

Internet Banking

In the first half of 2011 the following changes were introduced in Electronic Banking:

- Citibank Online was enriched with the so-called "virtual advisor" that is an interactive system of answering the most difficult questions posed by users;

- The Bank expanded the "I pay with Citi Handlowy" functionality by adding another large Partner – BluePay S.A. The cooperation with the new partner resulted in the increase in the number of "I pay with CitiHandlowy" transactions by over 40% in the period from December 2010 to May 2011.

Telephone Banking

In the first half of 2011 the CitiPhone 24h customer service team satisfied the assumed quality standards for customer telephone services and the telephone service factor (TSF) was 80% on a semi-annual basis.

Key initiatives implemented in CitiPhone during the first half of 2011 include creation of a team dedicated to serve non-standard client orders.

6. Changes in information technology

In the first half of 2011 the Bank carried out projects supporting stable technological platform and implementation of the strategy. We also continued various initiatives to cut costs in the area of technology while improving the quality of the products offered. The first Bank Product Research and Development Centre was opened with the aim to develop innovative business and technological solutions.

IT processes of the Bank are of top global quality, which in 2011 was confirmed with a positive result of the ISO 20000 re-certification audit.

All technological projects were implemented in line with priorities agreed under the long-term business strategy.

In the first half of 2011 the following solutions were implemented:

- the process of replacement of ATMs, in accordance with the ECB directive, with ATMs allowing for posting deposits in real time (1^{st} quarter of 2011);

- implementation in the entire ATM network of the Bank of the AUDIO functionality allowing for their use by blind people; the solution was awarded with the "Hit of the Year 2011" prize in the category "Solutions" of the contest run by Gazeta Bankowa;

- implementation of a project improving the process of sale, verification and effecting of mortgage loans and advances – the manual service of mortgages was moved to the ECUS application, which shortened the time of application processing and improved the quality within this group of products;

- implementation of the functionality of contactless payments for credit cards.

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

- carrying out a pilot project of a new version of the electronic banking system for corporate clients (Citidirect),

- implementing a platform for institutional clients to improve trade finance products and documentary operations services,

- implementing a system to guarantee compliance with the new reporting requirements of the Bank Guarantee Fund;

- modernizing the application for investment clients, to improve the sales processes imposed with the MiFID directive and other regulations;

- starting works over the system for cooperation with a new WSE transactions platform;

- adapting Bank systems to requirements of the new act on consumer credit;

- migrating corporate credit cards from Prime/Online to a regional ECS+ application, which will improve effectiveness of serving this type of products;

- implementation of a new consumer bank platform – program launched in the second quarter of 2011, planned implementation in the third quarter of 2012.

7. Equity investments

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2011, the Capital Group of the Bank continued its earlier policy of equity investments. The guidelines for the strategic portfolio were: maximize profits over a long-term perspective, increase market share, develop cooperation with the Bank and expand the offering of the Capital Group, while the objectives for the investments intended for sale were: optimize results of capital transactions and minimize risk in the related areas.

7.1 Strategic investments portfolio

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

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

7.2 Portfolio of investments intended for sale

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

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

8. Other information about the Group

8.1 Rating

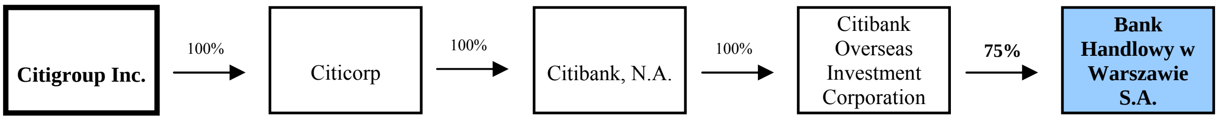
The Bank is rated by Moody's Investors Service (Moody's). During the first half of 2011, the ratings remained unchanged.

As at the end of the first six months of 2011, the following Moody's ratings were applicable:

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

8.2 Bank's share listings in the Warsaw Stock Exchange

The only shareholder of the Bank that holds at least 5% of the authorized capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group focused on foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. In the first half of 2011, the number of shares held by COIC as well as its share in the authorized capital and the total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively. The position of Bank Handlowy w Warszawie S.A. within the Citi Group structure is shown in the diagram below:

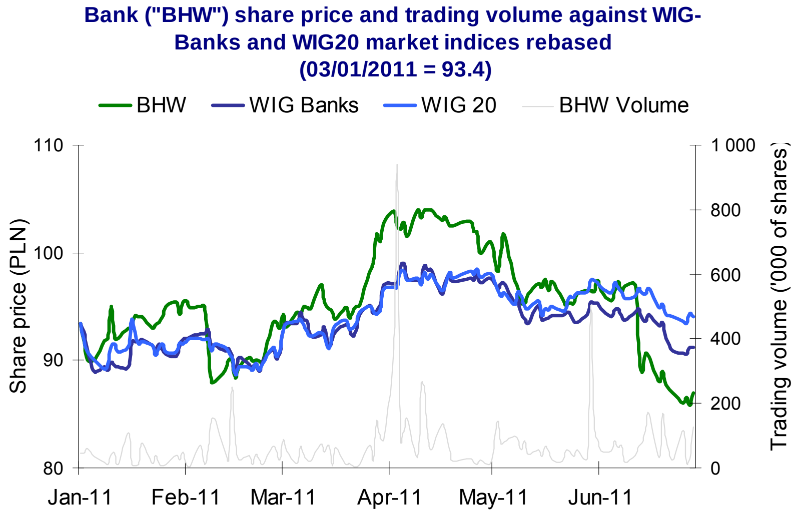


The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded as they are in the Warsaw Stock Exchange.

In accordance with a announcement of the Management Board of WSE of 1 April 2011, the Bank was included to the index of the largest and most liquid WSE companies – WIG20. The amendment of the index was made after the session of 5 April 2011.

The price of one share of the Bank (BHW) as at the end of the first half of 2011 was PLN 87.0, increasing by 17.6% from PLN 74.0 at the end of the first half of 2010. At the same time, from the beginning of 2011 the price of one share of the Bank declined by 6.9% from PLN 93.4 at the end of 3 January 2011. The record-high share price of the Bank in the first half of 2011 was PLN 104.0 (11 April 2011 as well as 13, 14 and 15 April 2011).

The change in the Bank's share price in the first half of 2011 was in line with the WIG-Banks index, which declined by 2.4% from the beginning of the year. Other WSE indices i.e. WIG20, WIG and mWIG40, increased slightly by 0.7%, 0.9% and 1.1%, respectively.



At the end of June 2011 capitalization of the Bank was PLN 11.4 billion (compared to PLN 9.7 billion at the end of the first half of 2010). At the end of the first half of 2011 stock exchange indices were as follows: P/E – 14.5 (compared to 15.9 in the same period of 2010), P/BV – 1.7 (compared to 1.5 at the end of June 2010).

8.3 Awards and nominations

In the first half of 2011, the Bank, its brokerage house (Dom Maklerski Banku Handlowego S.A.) and the Kronenberg Foundation received a number of prestigious titles and awards:

- Europroduct – eight products and services of the Bank were awarded in the 16th edition of the Europroduct contest. Among the awarded products were Reverse Factoring, Net Balance, Integrated Service of Receivables, Prepaid Cards, Guaranteed Cards with Direct Debit and Cash Services. Two services were awarded – CitiDirect and Corporate Customer Service Department. The contest has been run by Polskie Towarzystwo Handlowe under the patronage of the Minister of Economy and Polish Enterprise Development Agency (PARP). The purpose is to promote solutions that are considered best in the market and are aimed at catering for the customer needs in a comprehensive and professional way;

- Certificate “Top Employers Poland 2011” – the Bank was in a prestigious group of 20 top employers in Poland. The certificate confirms our strong position on the market of HR management, talent development and employee offer. We had the top results in 3 of 5 categories: “Fringe benefits and employment conditions”, “Training and development” and “Professional career”. The organizational culture of the company was also appreciated. The Top Employers certificate is awarded only to organizations satisfying top Human Resources Management standards. It is awarded under an independent, fact-based research of the Corporate Research Foundation Institute – one of the leading institutions researching the global HR policy;

- Respect Index – the Bank once again was in the exclusive group of 16 most socially responsible listed companies in Poland. A ticket to that distinction was a very high rating assigned under an audit conducted by Deloitte among WSE listed companies, which examined their CSR actions. Respect Index is a WSE index that gathers the most socially responsible companies;

- On 21 June 2011 in the ranking of the Rzeczpospolita daily – The Best Financial Institution in 2010, DMBH was ranked as the third best Brokerage House;

- ISO20000 certificate – the Bank passed the regulatory audit and maintained the ISO 20000 certificate in IT service management. The certification proves that the management of the IT environment and thus products and services offered by the Bank, are very good;

- European Employee Volunteering Awards – the Employee Volunteer Program of the Bank was the winner of the Polish edition of the contest in the "Large Company" category. The contest is organized by the Business in the Community and the European Commission, and conducted in 23 countries all over Europe. The main objective of the contest is to reward the best employee volunteering initiatives that help groups that are confronted with obstacles and may suffer exclusion on the labor market.

8.4 Social responsibility

The social responsibility mission is coordinated by the Kronenberg Foundation that acts on behalf of the Bank in support of work for the common good. In the first half of 2011 the activities of the Foundation were focused on coordination of voluntary activities performed by employees of the Bank for those in need and popularization of the idea of voluntary services, financial education of the Polish society, promotion of entrepreneurship and protection of the national cultural heritage.

In the first half of 2011 the Bank pursued the following programs and actions under the business social responsibility:

- From a Grosz to a Zloty (*Od grosika do złotówki*) – the first such program in Poland focused on financial education and targeted at primary school students, implemented under integrated teaching, carried out in cooperation with the Foundation of Entrepreneurship of Young People (*Fundacja Młodzieżowej Przedsiębiorczości*). The program is carried out by teachers and volunteer workers from the Bank, and supported by the parents. The purpose of the program is to help develop saving habits in children, build the sense of value based on work, make use of money and learn rational shopping. During the school year 2010/2011, 483 teachers and around 24,000 parents were introducing nearly 11,000 students in the world of finance;

- My Finances (*Moje finanse*) – the largest financial education program for the youths in Poland. It meets social demand for financial education and gives an opportunity for a more educated society who consciously manages its finances by saving, borrowing and investing. Running the program in higher secondary schools, the Foundation takes part in the education of young people, to make them able to take financial decisions that are rational and beneficial for them, on the basis of constantly updated knowledge.
  The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Foundation of Entrepreneurship of Young People. Its direct recipients are teachers and students of higher secondary schools throughout the country. During the school year 2010/2011, 153,000 students participated in the program implemented by 1,600 teachers;

- Banks in Action (*Banki w Akcji*) – a financial education program aimed at higher secondary school students interested in working in the financial sector. The program aims to promote, among this student group, the knowledge on the principles of financial markets operation, and particularly of commercial banks. The program is implemented by the Leopold Kronenberg Foundation and the Foundation of Entrepreneurship of Young People. During the first half of 2011 the following elements of the program were implemented:

  - Banks in Action – Enterprise Day – one day in a year on which higher secondary school students are invited to the Bank so that they can see what the work of bankers involves. This project is executed in the context of the nationwide Enterprise Day program. In 2011 the Enterprise Day was held on 31 March, on which the Bank hosted 220 student trainees;

  - Promoting the use of the Banks in Action simulation model in regular educational work – the Banks in Action is an interactive simulation model of a commercial bank. A student can play the role of a bank CEO and – in competition with a computer or other students – takes financial and marketing decisions that translate into the bank's financial standing. In 2011, 320 teachers were involved in the program attended by 11,500 students from all over the country.

- Micro Company of the Year 2011 – a contest for micro company owners. The purpose of the contest is to promote micro companies that are one of the basic forms of business activity in

Poland. The idea is to reward successful, above-average companies that are rooted in local societies and combine tradition with modernity. In the 7th edition of the contest there was a record number of 252 entries. The prestigious Micro Company of the Year 2011 title went to Jerzy Sznerski, the founder and owner of the Sznerski Guss company. The winner developed a unique technology of metal and rock melting. The contest covered a survey “Micro Company Finances After The Crisis”, which analyzed the present financial standing and the manners of coping with the crisis. This year edition was implemented in cooperation with the Microfinance Centre and the coalition for micro companies including the largest institutions supporting the operations of the smallest entities in the market;

- Finance in Your Hand (*Finanse w Twoich rękach*) – a new program prepared by the Leopold Kronenberg Foundation in cooperation with the Union of Citizens Advice Bureaux. The main purpose of the program is to prevent adverse effects of debts by way of expansion of services provided by the Bureaux. The project is aimed at three groups: debtors who seek help with solving their financial problems, Advisors of Citizens Advice Bureaux to provide competent assistance, Trainers of the Union of Citizens Advice Bureaux to assure permanent sharing of new skills in helping debtors;

- Award of Bank Handlowy w Warszawie S.A. for outstanding contribution to development of economics and finance – this competition aims to promote the most valuable publications devoted to the theory of economy and finance. It is considered the most prestigious Polish recognition in that field. The current 17th edition of the competition had 29 submissions, the biggest number so far;

- Employee Volunteer Program – the program that aims to assist the Bank employees in developing their social responsibility and involvement. Its main pillars include Citi’s Global Community Day, engagement of employees of the Bank in financial education and an innovative voluntary work project executed in the course of company integration trips. The employees provide their services on an individual or group basis. In the first half of 2011, 50 volunteers implemented 10 projects. In June the second edition of a contest – “Student Social Project – Become a Change Creator! (*Studencki Projekt Społeczny – Zostań Kreatorem Zmian!*) was opened. The contest is aimed at students with ideas for a volunteer project. 16 best ideas received a grant up to PLN 3,000. Awarded project will be implemented in July and August;

- Professor Aleksander Gieysztor Award – the most prestigious award for the protection of the national cultural heritage. It is given annually to institutions or private individuals for museum, restoration, archive and library works, 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. The gala of the 12th edition of the contest was held on 1 February 2011;

- Grant Program – is a contest through which the Foundation supports the most valuable projects carried out by non-profit organizations in the area of education and local development. During the first half of 2011, 15 grants were given for the total of PLN 425,600, including PLN 199,500 for eight grants for local projects recommended by branch directors. Grants were given in the following program areas: innovations in education (PLN 38,500), cultural heritage and traditions (PLN 256,200), economic education (PLN 55,000), art of children and youths (PLN 25,000) and social policy (PLN 50,000);

- More Trees Thanks to You (*Więcej drzew dzięki Tobie*) – a program carried out by the Bank along with the Kronenberg Foundation and the Nasza Ziemia foundation. Its purpose is to promote “green” habits and encourage customers of the Bank to quit paper account or credit card statements. As part of the program Citi Handlowy planted one tree on behalf of each customer who decided to switch to electronic statements. In spring 2011, 100,000 trees were planted. Besides, since May 2011 open educational meetings have been held in five locations throughout the country (Warszawa, Kielce, Kraków, Toruń, Gdańsk) near natural monuments in National and Lanscape Parks;

- Responsible Business League (*Liga Odpowiedzialnego Biznesu*) – a program organized by the Responsible Business Forum in collaboration with the Leopold Kronenberg Foundation and public universities (University of Warsaw, Jagiellonian University, Warsaw School of Economics and other). It responds to a growing interest in responsible business among students in Poland. It promotes CSR ideas in the academic environment, as standards of functioning in business and life, education on responsible business practices and construction of social environment favorable for responsible business. In the 7th edition (academic year 2010/2011) the activities of the Responsible Business League reached over 4,000 recipients. Through its Grant Program – Local Activities Workroom that is a part of the program, the League gave 17 grants for projects connected with responsible business education and promotion among students, pupils, teachers, journalist and local leaders. The annual conference – Responsible Business Academy 2011 was attended by 75 participants from all around Poland. The national CSR Case Study contest was entered into by 21 participants from the country and the CSR Poznań Contest – by 60 participants. Presently the League collaborates with over 50 organizations in Poland and it is represented by 25 Ambassadors in 22 colleges and universities located in 15 towns. The Minister of Economy, Mr. Waldemar Pawlak, became the honorable patron of the Responsible Business League.

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

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

1.1 Economy and macroeconomic environment

Despite symptoms of economic upturn in Poland, there is still much uncertainty regarding its duration, enhanced by declining indices preceding the economic situation in the industry. It is accompanied by the planned gradual tightening of the fiscal policy by the government in Poland, which may adversely affect the economic growth. Besides, in the case of a negative macroeconomic shock, there is a risk the public debt would exceed the prudence threshold of 55% GDP, which would necessitate a significant fiscal consolidation. Reduction of the public deficit and debt would probably require cutting on expenditures and raising taxes, thus leading to a slower economic development and deterioration of the financial condition of households. Moreover, the fears of the financial market participants regarding the state of the public finance in Poland might lead to higher volatility in the FX market, possible sale of bonds by foreign investors and a weaker zloty.

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

1.2 Regulatory risk

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

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

- admissible concentration of exposure limits (Banking Law);
- maximum level of equity investments in the capital market (Banking Law);

- liquidity, solvency and credit risk standards (resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority);

- risk management at the bank (Banking Law, resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority);

- calculating and satisfying reserve requirements (NBP Act, Banking Law, resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority and resolutions of the Chairman of NBP);

- taxes and related instruments;

- Act of 7 July 2005 amending the Civil Code and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such loan;

- limits regarding extension of mortgage-secured foreign currency loans, specified in Recommendation S of the Commission for Banking Supervision;

- Act of 16 February 2007 on protection of competition and consumers;

- Act of 23 August 2007 on counteracting unfair market practices;

- Act of 16 November 2000 on combating money laundering and terrorist financing;

- Act of 29 July 2001 on consumer credit;

- limits regarding extension of mortgage-secured foreign currency loans, specified in Recommendation S(II) of the Polish Financial Supervision Authority;

- Recommendation T of the Polish Financial Supervision Authority on good management practice concerning risk of retail credit exposure;

- Recommendation I of the Polish Financial Supervision Authority on management of foreign exchange risk in banks and rules of performing transactions subject to foreign exchange risk by banks;

- Recommendation A of the Polish Financial Supervision Authority on management of risks related to derivative transactions conducted by banks.

The act on consumer credit of 1 April 2011 becomes effective on 18 December 2011 and it will implement into the Polish law Directive 2008/48/EC of 23 April 2008 on credit agreement for consumers. The deadline for implementation of that Directive expired on 11 June 2010. The Bank is adjusting to requirements of the new regulation.

Due to failure to implement Directive 2007/64/EC of 13 November 2007 on payment services in the internal market (Payment Services Directive, PSD) within the required timeline, i.e. until 1 November 2009, the process of adapting operating activities of the entities covered by PSD was not completed in accordance with the European Union requirements. In the first half of 2011, further legislative work was conducted in order to transpose the EU regulations into the national law.

Moreover, due to failure to implement Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID) and the secondary legislation, i.e. Commission Regulation No. 1287/2006 and Commission Directive No. 73/2006 (both of 10 August 2006) within the required timeline, i.e. until 1 November 2007, the process of adapting operating activities of the entities covered by MiFID (investment companies and lending institutions conducting investment activities) was not completed in accordance with the European Union requirements. In 2008, further legislative work was conducted in order to transpose the EU regulations into the national law, in particular into the Act on trading in financial instruments and the related regulations of the Minster of Finance. However, the process of implementation was finalized at the end of 2009 when changes resulting from the judgment of the Constitutional Tribunal were introduced to the text of the regulations; the Constitutional Tribunal evaluated them at the request of the President of Poland. The act amending the previous regulations on trading in financial instruments was published on 6 October 2009 and came into force 14 days of its publication, whereas the secondary regulations were published on 2 December 2009 and came into force on 16 December 2009. A 6-month adjustment term was granted to the Bank, which expired on 16 June 2010. Presently there is implemented a procedure (public consultations) at the EU level, aimed at verifying how those regulations operate in practice and introducing necessary changes, if any. Consequently, it should be expected that EU regulations first mentioned in this paragraph will change, while such changes will have to be implemented in Poland.

Another procedure at the EU level is implemented to reduce the risk connected with the derivatives market, improve its transparency and enhance control over that market. The work includes regulations for the activity consisting of derivative transactions on the OTC market, introduction of legal solutions obliging to clear certain OTC transaction through the so-called Central Clearing Counterparty (CCP) and introduction of obligatory reporting to transaction repositories. There is much controversy over those regulations and at present it is not possible to forecast their final parameters, including the scope of the regulation which in some versions refers to both to the regulated and OTC markets. Those regulations may be introduced with an unknown effective date as soon as in 2011 by way of regulations and as such they will probably not need transposing to the Polish legal order.

The aforesaid legislative changes also apply to a subsidiary of the Bank – Dom Maklerski Banku Handlowego S.A.

1.3 Competition within the banking sector

Performance of the banking sector proves that this market is very attractive. According to data of the Polish Financial Supervision Authority net profit generated by banks operating in the Polish market in the period from January to May 2011 was over PLN 6 billion (+39% YoY), which means that it is highly probable that the record performance will be achieved in 2011 (around PLN 15 billion net profit).

The Polish banking sector is a very attractive and competitive market and changes in the shareholding structure of certain entities derive mainly from problems they face in their domestic markets and not from a change in the strategy or the lack of interest in the Polish market. Banks compete with one another in each segment. In the last months the competition in the SME segment became particularly fierce. That segment is especially important for the Polish economy and, with improved macroeconomic situation, it became more attractive for financial institutions. The competition is most visible in the area of credit margin that is reduced gradually as the banks want to attract new clients. That may translate into lower revenues from offered financing, however, it will probably be at least partially compensated with revenues generated on other products offered to companies that use loans.

The Group of the Bank is ready to operate in such competitive environment and plans to actively acquire clients both from the consumer and corporate sectors.

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

2.1 Liquidity risk

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

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

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

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

2.2 Foreign exchange risk

The Bank performs foreign exchange transactions both on behalf of its customers and for its own account, and holds open FX positions within the established limits. As a result, the Bank is exposed to exchange rate risk and it is uncertain whether future movements in exchange rates will or will not have an adverse effect on the Bank's financial condition. The control over foreign exchange risk is the responsibility of the Market Risk, which cooperates in this area with the Treasury responsible for managing liquidity and currency position. In the first half of 2011 the market risk of Bank's own position was moderate to high, and the Bank's Value at Risk limit for open FX positions was below 1% of the Bank's capital base.

2.3 Interest rate risk

As is the case with other Polish banks, the Bank is exposed to a mismatch risk arising from timing of changes in interest rates on its assets and the underlying liabilities (revaluation gap risk), as well as the risk that debt securities and interest rate based derivatives may be sensitive to market interest rate fluctuations (pricing risk). In terms of revaluation gap risk, interest rate risk may arise where it proves impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. Similarly, this risk also occurs when a rise in deposit rates cannot be offset by a corresponding rise in lending rates. As far as pricing risk is concerned, interest rate risk may occur in situations where changes in the market interest rates adversely affect the trading portfolio valuation and directly the Bank's income or the value of equity of the Bank, in the case of securities available for sale. Management of interest rate risk is one of the functions of the Bank's Assets and Liabilities Committee, which – among other things – develops the Bank's pricing policies regarding interest rate risk. The interest rate risk level during the first half of 2011 was low to medium for trading portfolios and medium for banking portfolios.

2.4 Credit risk

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

2.5 Equity investment risk

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

2.6 Operating risk

The Bank's Group defines the operating risk as a possible loss resulting from inadequacy or default of internal processes, people or systems, or from external events.

Operating risks includes risk of business practices and reputation risk. Operating risk also includes legal and compliance risk, but it does not cover strategic risk or risk of potential losses resulting from decisions to undertake credit, market, liquidity or insurance activity risks.

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

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

The Bank's Supervisory Board and Management Board oversee management of operating risk and in this process are supported by various Committees and a separate unit responsible for operating risk management.

Synthetic information on operating risk is discussed and reviewed by Committees that support the work of the Management Board and Supervisory Board of the Bank. Such information contains data that allow to monitor operating risk profile of the Bank (e.g. results of internal controls and external audits, results of RCSA, Key Risk Indicators (KRI), losses on operations, COB and information security updates, problems and corrective actions, capital requirements, and stress tests).

Due to low appetite for residual operating risk, all operating risks (including IT risk, legal risk, compliance risk, reputational risk etc.) will be managed mainly through effective control environment. The main goals for years 2010 to 2012 will focus on improving and enhancing operating risk management tools and techniques.

Use of outsourcing enables more clients to have access to information on products and services offered by the Bank, and to new technology solutions without additional expenditure. The Group intends to continue using outsourcing, especially in the area of information technology, and in cases when such outsourcing is justified by business needs and does not threaten safe operations of the Group. As outsourcing is not only benefits but also an increased risk, the Group strives to mitigate such risk in particular by ensuring compliance with the external laws and internal regulations, effective internal controls, monitoring of cooperation with third parties, ensuring safety of processed data and the banking secret. The decision to outsource banking activities is always taken by the Management Board of the Bank.

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

2.7 Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund (Act on BGF; legal status as at 30 June 2011), the Bank is included in a mandatory deposit insurance scheme for bank accounts and receivables confirmed with Bank documents. The banks included in the scheme are required to make specific contributions to the Bank Guarantee Fund, in accordance with Article 13 of Act on BGF, and to invest and deposit assets to the guaranteed deposits insurance fund created by the Bank in accordance with Article 26 of the Act on BGF.

When a guarantee condition is satisfied (for a domestic bank – a KNF's decision on suspension of bank's activities and appointment of the receivership, and filing to the competent court for bankruptcy), a body authorized to represent a given bank immediately transfers to BGF funds allocated for guaranteed payments. The relation of contributions to total mandatory contributions of entities included in the scheme is the same as the relation of the amount of the guaranteed deposits insurance fund of an entity included in the scheme to the total amount of guaranteed deposits insurance funds of all entities included in the scheme, excluding the entity satisfying the guarantee requirement. The Bank Guarantee Fund makes the payment of guaranteed funds first from the guaranteed deposits insurance fund of the bank satisfying the guarantee requirement and then from the guaranteed deposits insurance fund of entities included in the scheme. The order of using funds by the Fund is provided under Article 16a of the Act on BGF.

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

1. General objectives for the Group development

In the second half of 2011 the Bank will carry on the implementation of its current strategy. Top quality services and innovation, by offering unique solutions on the Polish market, will invariably be the priority of the Bank. Those actions are aimed at top customer satisfaction allowing establishing long-term relations with existing customers and convincing new ones to use the Bank's services.

The Group's main objective is long-term increase in the shareholder value by ensuring an appropriate return on equity, as well as maintaining liquidity and capital adequacy at an appropriate level to assure safety of the customers and their trust in the Bank.

1.1 Corporate and Commercial Banking

The Bank is the leader in the corporate banking market in Poland. To maintain its market position the Bank will be actively acquiring clients both among the largest companies and the SME segment.

Besides, the Bank plans to expand its relations with the existing clients, focusing on making its offer best suited to the needs of specified groups of customers. An important part of the Bank's revenues will be generated from trade finance, cash management foreign exchange and investment banking products introduced to its offer.

Innovative top quality products will be the basis for the Bank's competitive advantage, in particular for cooperation with the most demanding domestic and international clients.

Based on its long-term experience and membership in a strong international capital group, the Bank will aspire to the role of a long-term business partner of Polish companies, particularly those which, while developing their business, will strive to enter international markets and in their expansion to foreign markets they will need an institution that may make it easier for them through tailored offer of financial services.

1.2 Brokerage

Performance of DMBH is to a large extent determined by activities of institutional investors, who – in turn – are dependent on new capital inflows and the situation on the domestic equity market. Reduced transfers of funds to open pension funds should not have an adverse effect on the demand for shares of those institutions due to higher permitted limits for investments in equity instruments. The observed aversion to investing in equity funds and a possible increase in attractiveness of term deposits (due to interest rate increases) effectively limit the inflow of new funds to domestic investment funds and at the same time reduce activities of that segment. On the other hand, scheduled public offerings and transactions of the State Treasury may increase the interest in the domestic equity market of both retail and foreign investors. The business risks of DMBH include growing competition in institutional investor services and margin pressures arising from the same.

1.3 Consumer Banking

In the second half of 2011 the Consumer Bank will continue its strategy for the years 2010-2012. Effective sales and service processes, high quality of services and innovation will be the main elements of activities concentrated in the retail area, which will allow for strengthening the relations with the existing customer base and acquiring new clients.

In credit products, the Bank will be making its credit card offer even more attractive. Besides promotional actions aimed to increase the use of cards by their existing owners, the Bank also plans to launch offers that will encourage new clients to use that product. Rebate programs and a wide range of credit cards satisfying diversified client needs will remain the main elements aimed at maintaining the leading position of the Bank in that area. For loans, the Bank will promote solutions adequate to clients' needs and abilities – by way of secured and unsecured products. The supreme objective will be an effective lending process.

In savings and investment products the Bank will strive to use a broad range of product solutions and advanced analytical tools to encourage clients to plan their financial future within the offer of the Bank. Another area of concentration will be activities aimed at further activation of settlement accounts held both by the existing and new clients of the Bank.

Activation and acquisition will be supported by development of innovative services, in particular by expanded functionality of mobile banking and contactless payments. An important innovative element will be integration of banking products with travel card solutions and third party services.

The segment of high-net-worth individuals will remain favored. Besides prestigious products and top quality services, high-net-worth individuals will be offered numerous benefits and advantages connected with the behavioral profile of that segment.

Individuals conducting businesses activity will be preferred as well. An attractive product offer and benefits from individual and business relations with the Bank will be the main arguments in the communication with this group.

VIII. Best practices and management principles

1. Best practices at the Bank

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

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

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

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

On 19 May 2010, the Warsaw Stock Exchange made an amendment (first since 4 July 2007) in the Code of Best Practice for WSE Listed Companies. The Code was adapted to the latest changes in the law, current international trends in corporate governance, and expectations of market participants. Changes in the Code of Best Practice came into force on 1 July 2010. Through its resolution of 20 July 2010, having reviewed the changes in the Code of Best Practice for WSE Listed Companies, the Management Board decided to declare its willingness to follow the corporate governance principles included in the amendment to the Code of Best Practice for WSE Listed Companies and present those changes to the Supervisory Board and recommend to the Supervisory Board a resolution concerning Bank's compliance with the amended rules. For other areas of corporate governance, the Management Board of the Bank decided to uphold its declaration expressed in the letter of the Management Board of 13 May 2008. On 6 August 2010, the Supervisory Bard adopted the recommendation of the Management Board through passing of resolution on corporate governance principles included in the amendment to the Code of Best Practice. The Bank wishes to be the most respected financial institution in Poland, of the significant level of social and business responsibility. Since 2003 the Bank follows the corporate governance principles adopted by the Warsaw Stock Exchange in form of the Code of Best Practice for Public Companies 2005 and since 1 January 2008 in form of the Code of Best Practice for WSE Listed Companies; in case of the latter document the governing bodies of the Bank made a provision that two principles may not be presently applicable to the Company's situation. The main purpose of adopting corporate governance principles as a standard for operations of the Bank is to build transparent relations between all bodies and entities involved in the Company's operations and ensure that management of the Company and its business is performed in a proper and diligent way, ensuring loyalty to all shareholders.

A separate part of reports on the activities of the Bank and Bank's Capital Group for 2010 is statement of the Management Board on applying corporate governance principles in the Bank in 2010. The statement includes information mentioned in the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-member state (Journal of Laws No. 33, item 259, as amended).

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

1.1 Investor relations

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

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

1.2 Transparency

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

- the Bank has been publishing its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;

- half of the Supervisory Board is composed of independent members, including independent Chairman;
- as part of the Supervisory Board, Audit Committee has been established, which is composed of two independent members of the Supervisory Board, one being the Committee's Chairman;
- salaries of the members of the Company's governing bodies are adequate to the size of the Company and reflect their scope of responsibilities;
- all important internal regulations, as well as documents and information relating to General Meetings of the Shareholders of the Bank, are available at the head office of the Bank and on its website.

1.3 Protection of minority shareholders

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

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

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

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

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

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

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

3. Governing bodies of the Bank

3.1 Changes in the composition of the Management Board and Supervisory Board during the first half of 2011

3.1.1 Changes in the composition of the Management Board during the first half of 2011

During the first half of 2011 the Management Board of the Bank consisted of:

Sławomir S. Sikora	President of the Management Board
Robert Daniel Massey JR	Vice President of the Management Board
Misbah Ur-Rahman–Shah	Vice President of the Management Board – since 15 March 2011
Michał H. Mrożek	Vice President of the Management Board – until 28 February 2011
Sonia Wędrychowicz-Horbatowska	Vice President of the Management Board
Witold Zieliński	Vice President of the Management Board
Iwona Dudzińska	Member of the Management Board

Mr. Michał H. Mrożek resigned from his function of the Vice President of the Management Board on 28 February 2011.

On 15 March 2011, the Supervisory Board of the Bank appointed Mr. Misbah Ur-Rahman – Shah as the Vice President of the Management Board for the term of three years.

3.1.2 Changes in the composition of the Supervisory Board during the first half of 2011

During the first half of 2011 the Supervisory Board of the Bank consisted of:

Stanisław Sołtysiński	Chairman of the Supervisory Board
Shirish Apte	Vice Chairman of the Supervisory Board
Andrzej Olechowski	Vice Chairman of the Supervisory Board
Igor Chalupec	Member of the Supervisory Board
Sanjeeb Chaudhuri	Member of the Supervisory Board – until 14 April 2011
Mirosław Gryszka	Member of the Supervisory Board
Marc Luet	Member of the Supervisory Board – since 1 June 2011
Frank Mannion	Member of the Supervisory Board
Krzysztof L. Opolski	Member of the Supervisory Board
Stephen Simcock	Member of the Supervisory Board
Wiesław A. Smulski	Member of the Supervisory Board
Alberto Verme	Member of the Supervisory Board
Stephen Volk	Member of the Supervisory Board

On 14 April 2011, Mr. Sanjeeb Chaudhuri submitted his resignation from the function of the Member of the Supervisor Board to the Chairman of the Supervisory Board.

On 1 June 2011, the Annual General Meeting of the Bank appointed Mr. Marc Luet as the Member of the Supervisory Board for the term of three years.

3.2 Rules of appointing and dismissing members of the Management Board

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

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

3.3 Rights of the Management Board members

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

Through a resolution, the Management Board:

1) defines the Bank strategy,
2) creates and closes downs the committees supporting the work of the Bank and defines their powers,
3) decides and submits them to the Supervisory Board for approval the Management Board's bylaws,
4) decides and submits them to the Supervisory Board for approval the rules of handling special purpose funds created from net profit,
5) decides on the date of payment of dividend within the timeline defined by the General Meeting of the Shareholders,
6) appoints plenipotentiaries, general proxies and proxies with power of attorney and substitution,
7) decides in matters defined in the Management Board bylaws,
8) makes decisions in issues brought by the President, Vice President or Member of the Management Board,
9) independently decides on purchase or sale of real property, or on perpetual usufruct of or share in real property,
10) passes a resolution on the annual budget draft, accepts investment plans and reports of implementation of such plans,
11) accepts reports on the Bank's operations and financial reports,
12) formulates decisions regarding distribution of profit or coverage or losses,

13) approves of the Bank's employment policy, credit policy and legal principles of operations,

14) approves of the rules of the Bank's equity management,

15) approves of the employment structure,

16) established the basic structure of the Bank's organization, appoints and dismisses Heads of Sectors, appoints and dismisses Heads of Divisions, and makes decisions on their competence,

17) establishes the control action plan at the Bank and accepts control reports,

18) settles other issues which, according to the Articles of Association, are submitted to Supervisory Board or the General Meeting of the Shareholders,

19) makes decisions on contracting liabilities or disposing of assets, when the total value of such liabilities or assets in relation to a single entity exceeds 5% of the Bank's own funds, or appoints authorized persons to make such a decision; however, in matters within the powers of Committees appointed by the Bank the decisions are made after consulting a relevant Committee.

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

4. Other principles

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

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

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

Beside limitations stipulated by the Banking Law (Article 25 et seq.), the Bank's Articles of Association put no limitations with regard to transfer of Bank's shares.

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

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

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

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2011	Number of shares as at the day of submitting the previous quarterly interim report for Q2 of 2011
Iwona Dudzińska	Member of the Management Board	600	600
Andrzej Olechowski	Vice Chairman of the Supervisory Board	1,200	1 200
Total		**1,800**	**1,800**

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

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

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

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

3. Management principles

During the first half of 2011, no changes in the management principles were made. The management principles are outlined in the Note to the Interim Condensed Consolidated Financial Statement of the Capital Group of Bank.

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

X. Management Board's representations

True and fair financial statements

To the best knowledge of the Management Board of the Bank, composed of Mr. Sławomir S. Sikora – President, Mr. Robert Daniel Massey JR – Vice President, Mr. Misbah Ur-Rahman-Shah – Vice President, Ms. Sonia Wędrychowicz-Horbatowska – Vice President, Mr. Witold Zieliński – Vice President and Ms. Iwona Dudzińska – Member, semi-annual financial data and comparative data contained in the semi-annual consolidated report and presented in the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2011" and "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2011" were prepared in accordance with the principles of accounting and give a true, fair and clear picture of financial standing and financial position of the Bank and the Group as well as financial performance of the Bank and the Group. The "Report an activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2011", contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2011.

Appointment of a licensed auditing firm

A licensed auditing firm – KPMG Audyt Sp. z o.o. Sp. k., examining the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2011" and "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2011", was appointed in accordance with applicable laws. The firm and certified auditors that performed the examination satisfied the conditions necessary for issuing an objective and independent report on those statements, in accordance with applicable laws and professional standards.

Signatures of Members of the Management Board

24.08.2011	Sławomir S. Sikora	President	
………………………	………………………………	………………………	………………………………………………
Date	Name	Position	Signature
24.08.2011	Robert Daniel Massey JR	Vice President	
………………………	………………………………	………………………	………………………………………………
Date	Name	Position	Signature
24.08.2011	Misbah Ur-Rahman-Shah	Vice President	
………………………	………………………………	………………………	………………………………………………
Date	Name	Position	Signature
24.08.2011	Sonia Wędrychowicz-Horbatowska	Vice President	
………………………	………………………………	………………………	………………………………………………
Date	Name	Position	Signature
24.08.2011	Witold Zieliński	Vice President Chief Financial Officer	
………………………	………………………………	………………………	………………………………………………
Date	Name	Position	Signature
24.08.2011	Iwona Dudzińska	Member	
………………………	………………………………	………………………	………………………………………………
Date	Name	Position	Signature