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REPORT ON ACTIVITIES OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. IN 1H 2009

AUGUST 2009

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I. Poland's Economy in the First Half of 2009

1. Main Macroeconomic Trends

In the first half of 2009 the Polish economy decelerated considerably as its GDP expanded by 0.8% YOY in the first quarter of 2009 compared to 2.9% in the fourth quarter of 2008 and 4.9% YOY in the entire year 2008. Industrial production declined by an average of 8.9% YOY in the first half of 2009. In spite of this considerable slowdown in the growth of Poland's production, the general state of the economy was relatively better than that of all the other economies of the CEE region also impacted by the external shocks. The persisting economic doldrums likewise contributed to deterioration of conditions in the labour market and to constrain of pay raise pressures. Average wage inflation in the enterprise sector slowed down to 4.9% YOY in the first half of 2009 from 10.0% in the entire year 2008. The rate of unemployment in the period rose to reach the average of 10.8%.

In the first half of 2009 the consumer price index increase continued at a high rate of 3.5% YOY. The inflation was fuelled, among others, by food price increases and a weak złoty, which resulted in higher prices of imported goods. Base inflation – net of food and energy prices – reached 2.5% YOY in the first half of 2009.

The prospect of creeping recession under conditions of inflation lingering at the top of the target range set for it by the National Bank of Poland (NBP) induced the Polish Monetary Policy Council to loosen monetary policy. In the first half of 2009 the Monetary Policy Council reduced the reference rate by 150 basis points to 3.50%. At the same time, the monetary authorities suggested in their commentaries that they were less likely to further reduce interest rates, but did not exclude the possibility of further monetary policy loosening aimed at restricting the harmful effects of the financial crisis and providing a stimulus to economic growth.

2. Money Markets and FX Markets

In the first half of 2009 both the foreign exchange market and the interest rates market in Poland were adversely effected by the continuing volatility of global financial market coupled with the exacerbated risk aversion among investors. The insetting economic downturn and the concerns over servicing of Poland's external debt rallied pressures on devaluation of the złoty in the early months of 2009. As a result in mid-February it traded at PLN 4.90 against the euro.

The USD 20 billion arrangement of the International Monetary Fund for Poland under the flexible credit line and the rapid improvement in the country's trade balance in the subsequent months had a positive impact on the Polish currency. This combined with improving sentiment in the financial markets helped strengthen the złoty gradually. By the end of June 2009 the currency traded at PLN 4.45 against the euro and PLN 3.17 against the U.S. dollar.

In spite of the Monetary Policy Council pursuing the policy of monetary loosening market rates in the first half of 2009 remained high relative to the NBP reference rate. This in combination with a rather weak złoty held back decline of Polish bond yields. In the first half of 2009 the 3-month WIBOR rate declined from 5.84% to 4.44% while yields of Polish 5-year bond rose from 5.24% to 5.79%.

3. Capital Market

In the course of the first six months of 2009 the capital market went through two contrasting stages. In the initial three months of the year the Warsaw Stock Exchange (WSE) continued to experience the declines which began even in the second half of 2007 (with major price reductions of the banking sector asset occurring in February 2009). In turn, between March and the end of June 2009 the Warsaw bourse along with international capital markets experienced a reversal of trend. Aversion to risk subsided visibly over the period. Net positive cash inflows into the funds seeking exposures in Polish equities coupled with low valuations of the companies traded on WSE persuaded investors to buy equity instruments here. As a result the WIG index gained nearly 12.0% over its value as at the end of 2008, with WIG20, the index tracking the market's largest companies, performing somewhat less impressively and registering growth of 4.6%. The index which registered the highest scale change in the first half of the year was sWIG80 (+36.0%). Among the sector-specific sub-indices worth underscoring are the substantial growth stories of the food industry index (+69.1%) alongside that of the chemicals index and the developers index (+61.0% and +62.4% respectively). The bank equities faired the worst over the past six-month period as the banks index shed over 15%.

In the first half of 2009 the main floor of WSE expanded by six new stocks (including one that graduated from the small-caps New Connect market). Total value of the public offerings brought to the market over this period exceeded PLN 576 million, most of which was the Bogdanka mine privatisation IPO. At the same time four equities were withdrawn from market trading. As a result, as at the end of the first half of 2009 there were 376 companies listed on WSE (351 were domestic and 25 foreign).

The revival the Polish capital market enjoyed in the months of April to June 2009 translated into substantial stock gains. As at the end of June market capitalisation of the WSE traded companies reached PLN 546.7 billion (of which 52.0% was the market value of domestic companies), representing substantial growth of 17.5% over the end of the year 2008.

Warsaw Stock Exchange (WSE) Equity Indices, as at 30 June 2009

Index	**1H 2009**	**HOH Percentage Change**	**2008**	**YOY Percentage Change**	**1H 2008**
WIG	30,419.03	11.7%	27,228.64	(26.1%)	41,146.26
WIG-PL	30,052.78	10.6%	27,167.25	(25.9%)	40,550.50
WIG20	1,862.36	4.1%	1,789.73	(28.1%)	2,591.09
mWIG40	1,769.47	17.1%	1,511.27	(33.2%)	2,649.88
sWIG80	9,319.96	36.0%	6,852.79	(17.9%)	11,346.34
Sector specific sub-indices					
WIG-Banks	3,716.62	(15.4%)	4,390.90	(38.2%)	6,009.90
WIG-Construction	5,095.62	17.7%	4,329.98	(24.6%)	6,754.71
WIG-Chemicals*	2,935.30	61.0%	1,823.63	-	-
WIG-Developers	2,092.49	62.4%	1,288.65	(27.7%)	2,896.05
WIG-IT	1,100.47	17.2%	938.77	(15.5%)	1,302.84
WIG-Media	2,476.95	(4.0%)	2,580.80	(27.9%)	3,435.90
WIG-Fuel industry	2,065.02	9.3%	1,889.46	(11.0%)	2,320.08
WIG-Food industry	2,290.99	69.1%	1,354.52	(0.7%)	2,306.41
WIG-Telecommunications	1,029.39	(7.0%)	1,107.33	(14.7%)	1,206.28

* sub-index registered since 19 September 2008
Source: WSE, Dom Maklerski Banku Handlowego S.A.

Volumes of trade in shares, bonds and derivative instruments on WSE as at 30 June 2009

	1H 2009	**HOH Change (%)**	**2H 2008**	**YOY Change (%)**	**1H 2008**
Shares (PLN m)	148,718	(1.1%)	150,289	(12.7%)	170,423
Bonds (PLN m)	1,555	(46.2%)	2,891	(3.2%)	1,607
Futures contracts ('000 units)	6,372	4.7%	6,088	3.7%	6,146
Options contracts ('000 units)	188	5.7%	178	27.1%	148

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

The first half of 2009 was a period characterised by investor activity that proved to be lower than in the equivalent period a year earlier: trading volume declined by 12.7% YOY. Average session trading in the first half of 2009 reached PLN 1.2 billion. The weaker trading concentrated particularly in the first three months of the year, when the equity trading volume declined by 36.0% in annual terms. However, compared to the second half of 2008, market trading declined only slightly: by 1.1%.

The reduced risk aversion was visibly reflected in decline of investor interest in the fixed income market. In the first half of 2009 volume of bond trading over WSE reached over PLN 1.55 billion, which represented a decline in year-over-year terms (3.2%) as well as compared to the second half of 2008 (46.2%).

Volume of futures contracts trades in the first half of 2009 rose by 4.7% compared to the second half of 2008 and by 3.7% YOY as it exceeded 6.37 million units. The trading volume growth in option contracts was higher: by 5.7% and 27.1% respectively.

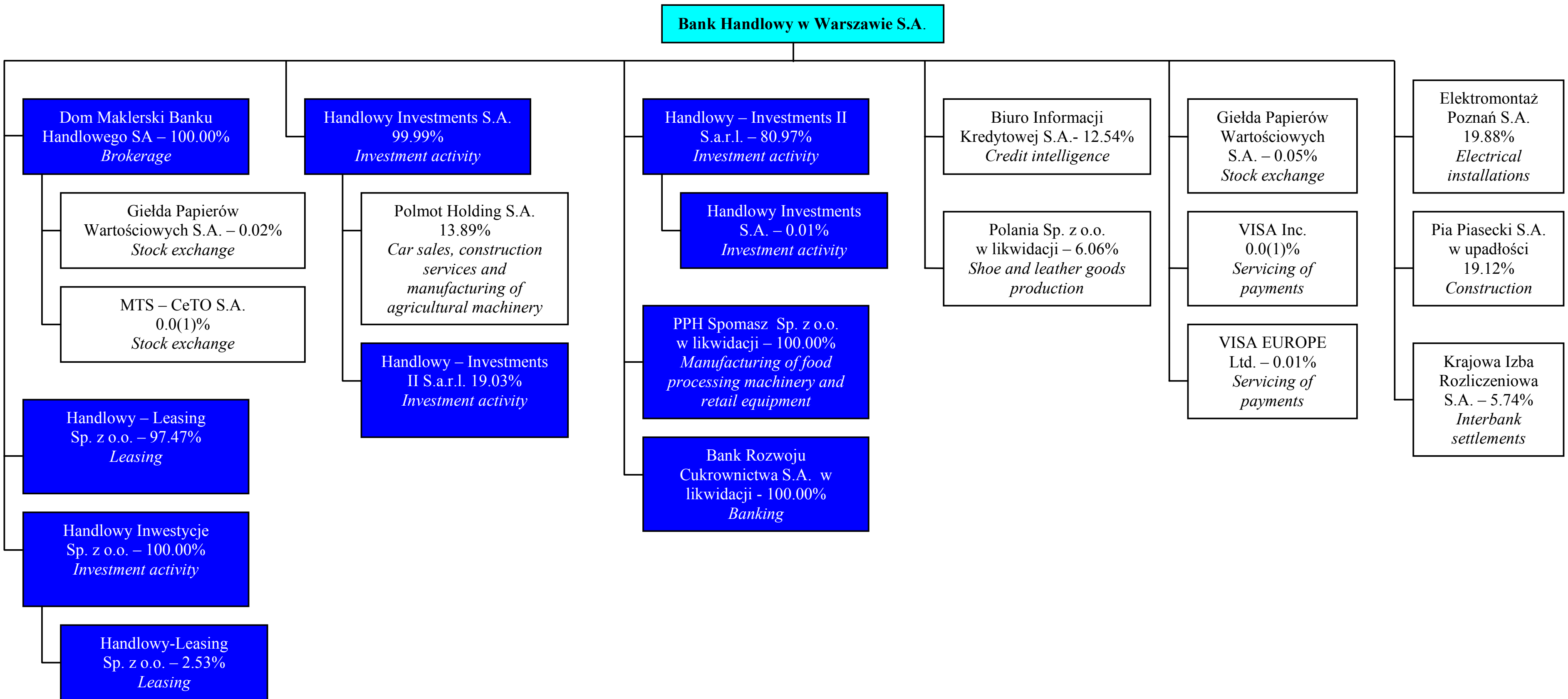
4. Banking Sector

The Polish banking sector continues to be strongly impacted by the disturbances and shocks in the global financial market and the unpredictable changes occurring in the macroeconomic environment worldwide. It has witnessed significant increase in banking risk resulting from deterioration of prospects for robust economic growth. Additionally, its cost of funds has increased, among others, because of the reduced liquidity of the interbank market. In the first half of 2009 net financial result of the Polish banking sector was PLN 4.3 billion, which represented a 50% decline over the net result the sector generated in the first half of 2008. What is worth stressing, however, is that this was still the second consecutive quarterly growth. Revenue of the sector rose by a mere 1% YOY in the period, this in spite of a decline in interest income and a small growth in commission and fee income. The cost cutting initiative undertaken in the period helped to halt any dynamic growth of expenses, which finally were 8% higher YOY. Impairment losses were another significant factor with adverse effect on the final net result of the banking sector. These reached PLN 5.7 billion rising 290% YOY; their formation continuing at very high levels since the fourth quarter of 2008.

In the first half of 2009 the banking sector continued to gain dynamically in balance sheet totals reaching growth of 19% in YOY terms. However, weakening of the złoty contributed to that in a significant way: by causing automatic upward revaluations of foreign currency positions in the banks’ balance sheets. At present, as the economic conditions continue to deteriorate, real terms balance sheet growth has substantially slowed down. In the first half of 2009 total loans to corporate entities increased by 16% YOY though złoty denominated corporate loans rose by only 4% YOY. Over the same period total loans to private individuals grew by 40% YOY while złoty denominated loans to private individuals rose by 19%. Corporate deposits grew by 8% YOY while deposits of private individuals grew by 27% YOY.

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

The organizational structure of the group entities of Bank Handlowy w Warszawie S.A. (Bank), by percentage of share capital held as at 30 June 2009, is presented below.



Related entities

Parent of the Capital Group of Bank Handlowy w Warszawie S.A.

Subsidiary entities of Bank Handlowy w Warszawie S.A.

Other holdings of Bank Handlowy w Warszawie S.A.

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

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

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Business	Capital relationship	% of authorised capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.	banking	parent	-	-	5, 681,628*
Dom Maklerski Banku Handlowego S.A. („DMBH")***	securities brokerage	subsidiary	100.00%	full consolidation	86,387
Handlowy - Leasing Sp. z o.o.***	leasing	subsidiary	100.00%**	full consolidation	174,861
Handlowy Investments S.A.***	investment activity	subsidiary	100.00%	full consolidation	28,671
PPH Spomasz Sp. z o.o. w likwidacji***	-	subsidiary	100.00%	full consolidation	Company under liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per stand-alone balance sheet of the Bank in respect of 2008*

*** Including indirect participations*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Business	Capital relationship	% of authorised capital held	Accounting method	Equity (PLN '000)
Handlowy Inwestycje Sp. z o.o.***	investment activity	subsidiary	100.00%	equity valuation	11,550
Handlowy Investments II S.a.r.l.***	investment activity	subsidiary	100.00%**	equity valuation	6,952
Bank Rozwoju Cukrownictwa S.A. ***	banking	subsidiary	100.00%	equity valuation	Company under liquidation

*** Including indirect participations*

**** Above data have not been audited*

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

1. Selected financial data of the Group

Selected financial data of the Bank

PLN million	30.06.2009	31.12.2008
Total assets	41,638.1	42,550.3
Equity	5,756.4	5,625.8
Loans*	13,391.6	13,886.0
Deposits*	19,392.7	19,935.1
Net profit	117.6	600.4
Capital adequacy ratio	13.5%	12.1%

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

2. Financial result of the Group in the first half of 2009

2.1 Income Statement

In the first half of 2009 the Group generated gross profit of PLN 162.0 million, which represented a PLN 279.4 million (or 63.3%) decline compared to that of the first half of 2008. In the same period consolidated net profit reached PLN 117.6 million, which represented a decline of PLN 232.6 million (or 66.4%) compared to an equivalent period a year earlier. Operating profit (which includes net interest and commission income, dividend income, net gains on financial instruments held for trading and on revaluation, net gains on investment debt securities, net gains on investment equity securities and net other operating income / costs) in the first half of 2009 reached PLN 1,218.6 million, which constituted a decrease of PLN 48.0 million (or 3.8%) compared to the first half of 2008.

The key factors contributing to the reduced earnings included: net impairment losses of PLN 333.0 million in the first half of 2009 as compared to PLN 36.1 million in the first half of 2008 (PLN 296.9 million negative impact on the net income), decrease of net gains/losses on financial instruments held for trading and on their revaluation by PLN 100.6 million and a PLN 74.4 million YOY decline in net fee and commission income. The factors which affected the net income positively included: a PLN 127.3 million YOY rise in net interest income and a PLN 67.1 million decline in general administrative costs and depreciation.

Selected income statement items

	first half of		Change	
PLN '000	2009	2008	PLN '000	%
Net interest income	773,978	646,685	127,293	19.7%
Net commission income	254,949	329,395	(74,446)	(22.6%)
Dividend income	5,925	4,716	1,209	25.6%
Net gains on financial instruments held for trading and on revaluation	114,577	215,143	(100,566)	(46.7%)
Net gains on investment debt securities	35,245	29,095	6,150	21.1%
Net gains on investment equity securities	3,437	(168)	3,605	2,145.8%
Net other operating income	30,517	41,714	(11,197)	(26.8%)
Total income	**1,218,628**	**1,266,580**	**(47,952)**	**(3.8%)**
Overheads and general administrative expenses and depreciation	(725,262)	(792,345)	67,083	8.5%
Overheads and general administrative expenses	(682,422)	(742,514)	60,092	8.1%
Depreciation/amortisation of tangible and intangible fixed assets	(42,840)	(49,831)	6,991	14.0%
Net gains on sale of fixed assets	2,103	1,447	656	45.3%
Net change in impairment losses	(332,996)	(36,134)	(296,862)	(821.6%)
Share in net profits/(losses) of entities valued by equity method	(509)	1,809	(2,318)	(128.1%)
Profit before taxation	**161,964**	**441,357**	**(279,393)**	**(63.3%)**

PLN '000	first half of 2009	2008	Change PLN '000	%
Income tax expense	(44,406)	(91,186)	46,780	51.3%
Net profit for the year	**117,558**	**350,171**	**(232,613)**	**(66.4%)**

Selected income statement items

PLN '000	Second quarter 2009	2008	Change PLN'000	%
Net interest income	383,563	324,551	59,012	18.2%
Net commission income	130,159	163,461	(33,302)	(20.4%)
Dividend income	5,913	4,716	1,197	25.4%
Net gains on financial instruments held for trading and on revaluation	74,969	90,012	(15,043)	(16.7%)
Net gains on investment debt securities	15,353	3,132	12,221	390.2%
Net gains on investment equity securities	1,997	-	1,997	-
Net other operating income	13,907	24,487	(10,580)	(43.2%)
Total income	**625,861**	**610,359**	**15,502**	**2.5%**
Overheads and general administrative expenses and depreciation	(351,520)	(381,738)	30,218	7.9%
Overheads and general administrative expenses	(330,406)	(357,447)	27,041	7.6%
Depreciation/amortisation of tangible and intangible fixed assets	(21,114)	(24,291)	3,177	13.1%
Net gains on sale of fixed assets	621	753	(132)	(17.5%)
Net change in impairment losses	(180,503)	(15,903)	(164,600)	(1,035.0%)
Share in net profits/(losses) of entities valued by equity method	731	744	(13)	(1.7%)
Profit before taxation	**95,190**	**214,215**	**(119,025)**	**(55.6%)**
Income tax expense	(23,785)	(44,151)	20,366	46.1%
Net profit for the year	**71,405**	**170,064**	**(98,659)**	**(58.0%)**

2.1.1 Revenue

Net interest income in the first half of 2009 stood at PLN 774.0 million as compared to PLN 646.7 million in an equivalent period of 2008 (an increase of PLN 127.3 million or 19.7%), primarily resulting from an increase in income on available for sale securities and a decrease in the cost of non-financial sector deposits.

Net interest income

PLN '000	first half of 2009	2008	Change PLN '000	%
Interest and similar income from:				
Central Bank	24,361	23,536	825	3.5%
Placements in banks	44,353	177,007	(132,654)	(74.9%)
Loans and advances, of which:	658,911	682,030	(23,119)	(3.4%)
Financial sector	10,463	8,832	1,631	18.5%
Non-financial sector, including	648,448	673,198	(24,750)	(3.7%)
on credit cards	*168,464*	*166,171*	*2,293*	*1.4%*
Debt securities available-for-sale	272,288	171,383	100,905	58.9%
Debt securities held-for-trading	83,911	41,291	42,620	103.2%
Total	**1,083,824**	**1,095,247**	**(11,423)**	**(1.0%)**
Interest expense and similar charges on:				
Operations with the Central Bank	(13,772)	-	(13,772)	-
Deposits from banks	(14,847)	(26,566)	11,719	(44.1%)
Deposits from financial sector (excl. banks)	(52,193)	(63,763)	11,570	(18.1%)

PLN '000	first half of		Change	
	2009	**2008**	**PLN '000**	**%**
Deposits from non-financial sector	(218,985)	(341,407)	122,422	(35.9%)
Loans and advances received	(10,049)	(16,826)	6,777	(40.3%)
Total	**(309,846)**	**(448,562)**	**138,716**	**(30.9%)**
Net interest income	**773,978**	**646,685**	**127,293**	**19.7%**

In the first half of 2009 the net fee and commission income reached PLN 254.9 million against PLN 329.4 million in an equivalent period in 2008 (a decrease of PLN 74.4 million or 22.6%), primarily resulting from a contraction in commissions on insurance and investment products in the Consumer Bank, custody and depositary services and brokerage services.

Net fee and commission income

PLN '000	first half of		Change	
	2009	**2008**	**PLN '000**	**%**
Fee and commission income				
Insurance and investment products	79,117	126,011	(46,894)	(37.2%)
Payment and credit cards	78,996	81,264	(2,268)	(2.8%)
Transaction services	58,516	65,339	(6,823)	(10.4%)
Custody services	30,158	42,250	(12,092)	(28.6%)
Brokerage operations	22,261	30,894	(8,633)	(27.9%)
Other	37,271	37,661	(390)	(1.0%)
Total	**306,319**	**383,419**	**(77,100)**	**(20.1%)**
Fee and commission expense				
Payment and credit cards	(31,860)	(26,724)	(5,136)	19.2%
Brokerage operations	(10,187)	(16,781)	6,594	(39.3%)
Other	(9,323)	(10,519)	1,196	(11.4%)
Total	**(51,370)**	**(54,024)**	**2,654**	**(4.9%)**
Net fee and commission income				
Insurance and investment products	79,117	126,011	(46,894)	(37.2%)
Payment and credit cards	47,136	54,540	(7,404)	(13.6%)
Transaction services	58,516	65,339	(6,823)	(10.4%)
Custody services	30,158	42,250	(12,092)	(28.6%)
Brokerage operations	12,074	14,113	(2,039)	(14.4%)
Other	27,948	27,142	806	3.0%
Total	**254,949**	**329,395**	**(74,446)**	**(22.6%)**

Net gains on financial instruments held for trading and on revaluation in the first half of 2009 reached PLN 114.6 million as compared to PLN 215.1 million in the equivalent period a year earlier which constituted a decrease of PLN 100.6 million or 46.7%. Despite strong volatility on the financial markets, the Bank continued active sale of products to customers in the first half of 2009. However, adjustment of the valuation of counterparty credit risk related to transactions on derivatives was included in net gain on financial instruments held for trading and on revaluation, which has decreased it by the amount of PLN 62.8 million,

2.1.2 Expense

In the first half of 2009 the total expenses reached PLN 725.3 million against PLN 792.3 million in the equivalent period of 2008 (a decrease of PLN 67.1 million or 8.5%). The decline in expenses results from a decrease in both: general administrative expenses and depreciation. The reduction in general administrative expenses stems primarily from a PLN 54.8 million (or 14.0%) decrease in staff expenses.

General administrative expenses and depreciation expense

PLN '000	**first half of**		**Change**	
	2009	**2008**	**PLN '000**	**%**
Staff expenses	**338,019**	**392,845**	**(54,826)**	**(14.0%)**
Remuneration costs	267,183	321,277	(54,094)	(16.8%)
Perks and rewards	70 836	71 568	(732)	(1.0%)
Administrative expenses	**344,403**	**349,669**	**(5,266)**	**(1.5%)**
Telecommunication fees and hardware purchases	81,887	74,371	7,516	10.1%
Advisory, audit, consulting and other services	84,918	82,888	2,030	2.4%
Building maintenance and rent	63,889	53,012	10,877	20.5%
Marketing	15,146	36,587	(21,441)	(58.6%)
Transaction costs	28,247	31,319	(3,072)	(9.8%)
Postal services	19,888	15,469	4,419	28.6%
Training and education	3,896	5,461	(1,565)	(28.7%)
Banking supervision	4,482	3,904	578	14.8%
Other expanses	42,050	46,658	(4,608)	(9.9%)
Depreciation/amortisation of tangible and intangible assets	**42,840**	**49,831**	**(6,991)**	**(14.0%)**
Total	**725,262**	**792,345**	**(67,083)**	**(8.5%)**

The decrease in expenses in the Commercial Bank resulted mainly from lower staff expenses and depreciation. In the Consumer Bank lower expenses stemmed from a decrease in staff expenses and advertising and marketing costs.

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

Net impairment losses

	first half of		**Change**	
PLN '000	**2009**	**2008**	**PLN '000**	**%**
Net impairment losses incurred but not reported (IBNR)	(34,947)	1,386	(36,333)	-
Net impairment losses on loans and off-balance sheet liabilities	(298,049)	(37,520)	(260,529)	(694.4%)
accounted for individually	(207,421)	1,929	(209,350)	-
accounted for collectively, on a portfolio basis	(90,629)	(39,449)	(51,179)	(129.7%)
Total change in impairment losses	**(332,996)**	**(36,134)**	**(296,862)**	**(821.6%)**

In the first half of 2009 total impairment losses reached PLN 333.0 million against PLN 36.1 million in the first half of 2008. PLN 296.9 million increase in net impairment losses is a result of deteriorating ratio of released loan loss provisions to new provisions formed on account of increased lending risk in the Commercial Bank. This increased risk reflected deteriorating financial condition of the Bank's clients in the individually accounted for portfolio, wherever timely debt service was under threat. In the Consumer Bank the increased impairment loss charges were precipitated by the growing loan and credit cards portfolios as well as the growing share of irregularly serviced receivables. The increase in net impairment losses incurred but not reported (INBR) results from the economic slowdown.

2.1.4 Ratio analysis

Selected financial ratios	First half of 2009	First half of 2008
ROE*	6.9%	14.6%
ROA	0.9%	1.9%
Cost / Income	59.5%	62.6%
Loans to non-financial sector / Deposits from non-financial sector	69%	69%
Loans to non-financial sector / Total assets	32%	37%
Net interest income / Revenue	64%	51%
Net fee and commission income / Revenue	21%	26%

*Sum of net profit for the 4 last quarters to average equity (excluding net profit for the current year) calculated on quarterly basis

Employment in the Group

posts	First half of 2009	First half of 2008
Average employment in the period	5,394	5,775
Employment as at the end of the period	5,360	5,616

2.2 Balance Sheet

As at 30 June 2009, total assets of the Group reached PLN 41,638.1 million and where 2.1% lower than at the end of 2008. The increase of PLN 1,928.4 million in liabilities due to Central Bank as compared to the end of 2008 is due to sale and repurchase agreements (repo transactions).

Balance Sheet

	As at		Change	
PLN '000	**30.06.2009**	**31.12.2008**	**PLN '000**	**%**
ASSETS				
Cash and balances with central bank	1,196,545	3,530,977	(2,334,432)	(66.1%)
Financial assets held for trading	9,125,375	7,885,488	1,239,887	15.7%
Debt securities available-for-sale	12,039,321	10,814,828	1,224,493	11.3%
Equity investments valued by equity method	55,963	56,469	(506)	(0.9%)
Equity investments	9,881	11,095	(1,214)	(10.9%)
Loans and advances	16,492,808	17,581,499	(1,088,691)	(6.2%)
to financial sector	3,101,244	3,695,522	(594,278)	(16.1%)
to non-financial sector	13,391,564	13,885,977	(494,413)	(3.6%)
Property and equipment	550,331	571,947	(21,616)	(3.8%)
Intangible assets	1,279,361	1,283,326	(3,965)	(0.3%)
Deferred income tax assets	412,627	336,290	76,337	22.7%
Other assets	451,140	443,159	7,981	1.8%
Non-current assets available-for-sale	24,736	35,267	(10,531)	(29.9%)
Total assets	**41,638,088**	**42,550,345**	**(912,257)**	**(2.1%)**
LIABILITIES				
Due to central bank	1,928,386	-	1,928,386	-
Financial liabilities held for trading	4,852,599	6,806,790	(1,954,191)	(28.7%)

	As at		Change	
PLN ‘000	**30.06.2009**	**31.12.2008**	**PLN '000**	**%**
Financial liabilities valued at amortized cost	28,256,631	29,345,498	(1,088,867)	(3.7%)
Deposits from	26,946,898	27,857,332	(910,434)	(3.3%)
financial sector	7,554,154	7,922,260	(368,106)	(4.6%)
non-financial sector	19,392,744	19,935,072	(542,328)	(2.7%)
other liabilities	1,309,733	1,488,166	(178,433)	(12.0%)
Provisions	46,750	24,578	22,172	90.2%
Income tax liabilities	-	77	(77)	-
Other liabilities	797,335	747,593	49,742	6.7%
Total liabilities	**35,881,701**	**36,924,536**	**(1,042,835)**	**(2.8%)**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	3,030,546	3,029,703	843	0.0%
Revaluation reserve	(137,109)	(144,110)	7,001	4.9%
Other reserves	2,225,635	1,627,692	597,943	36.7%
Retained earnings	114,677	589,886	(475,209)	(80.6%)
Total equity	**5,756,387**	**5,625,809**	**130,578**	**2.3%**
Total liabilities and equity	**41,638,088**	**42,550,345**	**(912,257)**	**(2.1%)**

2.2.1 Assets

Gross loan receivables *

	As at		Change	
PLN ‘000	**30.06.2009**	**31.12.2008**	**PLN '000**	**%**
Banks and other monetary financial institutions	2,685,315	3,021,777	(336,462)	(11.1%)
Non-banking financial institutions	491,904	751,369	(259,465)	(34.5%)
Non-financial sector entities	8,991,583	9,416,460	(424,877)	(4.5%)
Individuals	5,976,480	5,774,318	202,162	3.5%
Government units	71,573	71,597	(24)	(0.0%)
Other receivables	8,033	10,771	(2,738)	(25.4%)
Total	**18,224,888**	**19,046,292**	**(821,404)**	**(4.3%)**

** Receivables with payable interest*

The loans and advances to non-financial sector remained the largest asset on the balance sheet. Its value decreased by PLN 494.4 million (or 3.6%) in the first half of 2009 as compared to the end of 2008.

In gross terms receivables of non-financial sector corporate entities decreased by PLN 424.9 million (or 4.5%) whereas receivables of individuals rose by PLN 202.2 million (or 3.5%).

Loans and advances to non-financial sector, gross

	As at		Change	
PLN '000	**30.06.2009**	**31.12.2008**	**PLN '000**	**%**
Not at risk of impairment	12,716,171	13,417,615	(701,444)	(5.2%)
corporate customers	7,192,543	7,987,933	(795,390)	(10.0%)
individual customers	5,523,628	5,429,682	93,946	1.7%
At risk of impairment	2,331,499	1,855,528	475,971	25.7%
corporate customers	1,873,655	1,508,098	365,557	24.2%
individual customers	457,844	347,430	110,414	31.8%
Total	**15,047,670**	**15,273,143**	**(225,473)**	**(1.5%)**

PLN '000	As at 30.06.2009	31.12.2008	Change PLN '000	%
Impairment	1,656,106	1,387,166	268,940	19.4%
Loans and advances to non-financial sector, net	**13,391,564**	**13,885,977**	**(494,413)**	**(3.6%)**
Provision coverage ratio	**71%**	**75%**		

Loans and advances, net

PLN '000	As at 30.06.2009	31.12.2008	Change PLN '000	%
Loans and advances to non-financial sector				
Corporate clients	7,828,305	8,425,549	(597,244)	(7.1%)
Individual customers, including:	5,563,259	5,460,428	102,831	1.9%
Credit cards	*2,268,189*	*2,215,099*	*53, 090*	*2.4%*
Cash loans to customers	*3,031,260*	*2,984,266*	*46,994*	*1.6%*
Total	**13,391,564**	**13,885,977**	**(494,413)**	**(3.6%)**
Loans and advances to financial sector				
Banks and other monetary financial institutions	*2,682,737*	*3,017,739*	*(335,002)*	*(11.1%)*
Non-banking financial institutions	*418,507*	*677,782*	*(259, 275)*	*(38.3%)*
Total	**3,101,244**	**3,695,521**	**(594,277)**	**(16.1%)**
Total loans and advances	**16,492,808**	**17,581,499**	**(1,088,691)**	**(6.2%)**

Debt securities portfolio expanded by PLN 4,084.3 million or 33.9% in the first half of 2009.

Debt securities portfolio

PLN '000	As at 30.06.2009	31.12.2008	Change PLN '000	%
Treasury bonds	11,199,957	7,802,405	3,397,552	43.5%
NBP bonds	-	383,665	(383,665)	(100.0%)
Municipal bonds	20,000	-	20,000	-
Treasury bills	2,391,674	1,826,120	565,554	31.0%
Certificates of deposit and banks' bonds	-	26,065	(26,065)	(100.0%)
Issued by non-financial entities	36,269	21,929	14,340	65.4%
Issued by financial entities	-	3,185	(3,185)	(100.0%)
NBP bills	2,499,510	1,999,722	499,788	25.0%
Total	**16,147,410**	**12,063,091**	**4,084,319**	**33.9%**

2.2.2 Liabilities

Financial liabilities valued at amortised cost

PLN '000	As at 30.06.2009	31.12.2008	Change PLN '000	%
Due to financial sector	**7,549,627**	**7,918,041**	**(368,414)**	**(4.7%)**
- banks and other monetary financial institutions	2,237,110	3,334,887	(1,097,777)	(32.9%)
- due to non-banking financial sector	5,312,517	4,583,154	729,363	15.9%
Due to non-financial sector including:	**19,370,977**	**19,908,156**	**(537,179)**	**(2.7%)**
- corporate clients	11,263,038	11,794,311	(531,273)	(4.5%)
- individuals	5,556,242	5,472,599	83,643	1.5%
Other liabilities including accrued interest:	**1,336,027**	**1,519,301**	**(183,274)**	**(12.1%)**
Total	**28,256,631**	**29,345,498**	**(1,088,867)**	**(3.7%)**

The key item funding the Group's assets are liabilities due to non-financial sector clients. Compared to the balances as at the end of 2008, amounts due to corporate clients decreased by PLN 531.3 million (or 4.5%) while amounts due to individuals increased by PLN 83.6 million (or 1.5%).

Within the due to financial sector category, funds due to non-banking financial sector decreased by PLN 729.4 million (or 15.9%) while funds of banks and other monetary financial institutions declined by PLN 1,097.8 million (or 32.9%) as compared to the end of 2008.

Deposits

	As at		Change	
PLN ' 000	**30.06.2009**	**31.12.2008**	**PLN '000**	**%**
Non-financial sector				
Current accounts:	**7611,563**	**7,476,940**	**134,623**	**1.8%**
corporate customers	4,089,931	4,295,684	(205,753)	(4.8%)
individual customers	3,521,632	3,181,256	340,376	10.7%
Deposits:	**11,759,414**	**12,431,216**	**(671,802)**	**(5.4%)**
corporate customers	9,799,233	10,139,873	(340,640)	(3.4%)
individual customers	1,960,181	2,291,343	(331,162)	(14.5%)
Accrued interest	**21,767**	**26,916**	**(5,149)**	**(19.1%)**
Total	**19,392,744**	**19,935,072**	**(542,328)**	**(2.7%)**
Financial sector				
Banks and other monetary financial institutions	3,129,330	3,341,920	(212,590)	(6.4%)
Non-banking financial institutions	4,424,824	4,580,340	(155,516)	(3.4%)
Total	**7,554,154**	**7,922,260**	**(368,106)**	**(4.6%)**
Total deposits	**26,946,898**	**27,857,332**	**(910,434)**	**(3.3%)**

2.2.3 Sources and uses of funds

Source of funds	**30.06.2009**	**31.12.2008**
Funds of banks and other monetary financial institutions	4,215,150	4,594,886
Funds of customers and government units	24,041,481	24,750,612
Own funds with net income	5,756,387	5,625,809
Other external funds	7,625,070	7,579,038
Total source of funds	**41,638,088**	**42,550,345**

Use of funds	**30.06.2009**	**31.12.2008**
Receivables from banks and other monetary financial institutions	2,682,737	3,017,739
Receivables from customers and government units	13,810,071	14,563,760
Securities, shares and other financial assets	21,230,540	18,767,880
Other uses of funds	3,914,740	6,200,966
Total use of funds	**41,638,088**	**42,550,345**

2.3 Equity and capital adequacy ratio

Compared to 2008 equity of the Group at the end of the first half of 2009 increased by 12.2%. The major changes in Equity were an increase of PLN 516.9 million in supplementary capital and an increase of PLN 75.0 million in general risk reserve, which were caused by retaining the whole profit for the year 2008.

Equity*

	As at		Change	
PLN '000	**30.06.2009**	**31.12.2008**	**PLN '000**	**%**
Issued capital	522,638	522,638	-	-
Share premium	3,030,546	3,029,703	843	0.0%
Supplementary capital	1,750,756	1,233,896	516,860	41.9%
Revaluation reserve	(137,109)	(144,110)	7,001	4.9%
General risk reserve	465,000	390,000	75,000	19.2%
Other equity	6,998	(6,752)	13,750	203.6%
Total equity	**5,638,829**	**5,025,375**	**613,454**	**12.2%**

*Equity excluding net profit

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 for capital adequacy ratio calculation.

Capital adequacy ratio

PLN '000		**30.06.2009***	**31.12.2008****
I	**Own funds, as stated on the balance sheet, including:**	**4,290,137**	**3,675,517**
	less:		
	- interests in subordinated financial entities	55,963	56,469
	- intangible assets, including:	1,279,362	1,283,326
	goodwill	*1,245,976*	*1,245,976*
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**18,774,175**	**19,867,900**
III	**Total capital requirement, including:**	**2,535,348**	**2,435,448**
	- capital requirement to cover credit risk (II*8%)	1,501,934	1,589,432
	- capital requirement to cover counterparty risk	224,936	272,222
	- capital requirement to cover excess exposure concentration and large exposures limit	109,514	82,835
	- total capital requirements to cover market risk	211,872	132,313
	- capital requirement to cover operational risk	345,885	347,112
	- other capital requirements	141,207	11,534
	Capital adequacy ratio (I/III*12.5)	**13.54%**	**12.07%**

** Capital adequacy ratio was calculated in accordance with the rules set out by resolution No. 380/2008 of the Polish Financial Supervision Authority dated 17 December 2008 on the Scope and Detailed Rules of Determining Capital Requirements for Coverage of Respective Types of Risks (...) (Official Journal of NBP No. 8, item 34).*
*** Capital adequacy ratio was calculated in accordance with the rules set out by resolution No. 1/2007 of the Commision for Banking Supervision dated 13 March 2007 on the Scope and Detailed Rules of Determining Capital Requirements for Coverage of Respective Types of Risks (...) (Official Journal of NBP No. 2, item 3).*

As at 30 June 2009 the Group's capital adequacy ratio stood at 13.54%, up 1.47 percentage points from its value as at the end of 2008. This resulted mainly from an increase in the Group's equity which was a consequence of assigning the whole 2008 net profit to this purpose.

As at 30 June 2009 the total capital requirement and the respective capital requirements haven't changed substantially as compared to the end of 2008.

2.4 2009 forecast execution

Bank – the parent company has not disclosed forecasts for 2009.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2009

1. Lending and other risk exposures

1.1 Lending

The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures undertaken as needed. In the first half of 2009 the Group continued to optimise its lending process and to adjust its loan offer to the needs of its clients and customers and to the current market conditions. The portfolio of receivables from individual customers is managed with support of financial models, which provide for risk and profitability of the respective loans category groups in the portfolio. The credit risk and scorecard assessment process draws on information of the Credit Information Bureau. Between 2006 and 2008 the Bank implemented scorecard assessment models for portfolios of cash loans and unsecured credit lines.

Lending to non-bank customers, gross

	As at		Change	
PLN '000	30.06.2009	31.12.2008	PLN '000	%
Loans in PLN	13,218,285	13,345,705	(127,420)	(1.0%)
Loans in foreign currency	2,321,288	2,581,936	(260,648)	(10.1%)
Total	**15,539,573**	**15,927,641**	**(388,068)**	**(2.4%)**
Loans to non-financial sector	14,976,096	15,201,549	(225,453)	(1.5%)
Loans to financial sector	491,904	654,495	(162,591)	(24.8%)
Loans to public sector	71,573	71,597	(24)	(0.0%)
Total	**15,539,573**	**15,927,641**	**(388,068)**	**(2.4%)**
Non-financial corporates	8,991,583	9,416,460	(424,877)	(4.5%)
Individuals	5,976,480	5,774,318	202,162	3.5%
Non-bank financial entities	491,904	654,495	(162,591)	(24.8%)
Public entities	71,573	71,597	(24)	(0.0%)
Other non-financial receivables	8,033	10,771	(2,738)	(25.4%)
Total	**15,539,573**	**15,927,641**	**(388,068)**	**(2.4%)**

As at 30 July 2009 gross credit exposure to the non-bank customers sector amounted to PLN 15,539.6 million, representing a decrease of 2.4% compared to 31 December 2008. The largest part of that credit portfolio, being loans to non-financial corporates decreased by 4.5% in the first half of 2009. Loans to individuals grew in comparison with the end of 2008 by 3.5% to PLN 5,976.5 million. The growth of the loans to individuals' portfolio resulted from a development of the offer addressed to these customers and intensified promotional and sales activity.

As at the end of June 2009 the currency structure of loans outstanding changed slightly as compared with the end of 2008. The share of foreign currency loans as at 30 June 2009 decreased slightly compared to 31 December 2008 and reached 14.9%. It is worth underscoring that the Group grants foreign currency loans to clients and customers who have foreign currency cash flows or to the entities which, in the Group's opinion, are able to predict or absorb the currency risk without significant threat to their financial position.

The Group monitors the concentration of its exposures on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. As at 30 June 2009 the Group's portfolio exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposures to non-bank borrowers

w tys. zł	30.06.2009			31.12.2008		
	Balance sheet outstanding*	**Off-balance sheet outstanding**	**Total outstanding**	**Balance sheet outstanding***	**Off-Balance sheet outstanding**	**Total outstanding**
GROUP 1	371,371	309,472	680,843	344,592	408,274	752,866
GROUP 2	293,860	301,500	595,360	267,359	179,323	446,682
GROUP 3	153,557	321,336	474,893	135,195	327,636	462,831
GROUP 4	120,605	347,766	468,371	187,916	311,341	499,257
GROUP 5	273,766	166,421	440,187	245,000	5,000	250,000
GROUP 6	227,958	152,827	380,785	111,534	164,381	275,915
GROUP 7	29,250	313,708	342,958	238,175	38,605	276,780
GROUP 8	151,118	175,544	326,662	86,728	235,094	321,822
CLIENT 9	14	320,311	320,325	6	312,102	312,108
GROUP 10	36,406	269,931	306,337	113,757	188,303	302,060
Total 10	**1,657,905**	**2,678,816**	**4,336,721**	**1,730,262**	**2,170,059**	**3,900,321**

** Excluding equity and other securities exposures*

1.2 Loan portfolio quality

All of the Group's receivables are attributed 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, the portfolio at risk of impairment is then classified into assets accounted for individually or collectively.

As at 30 June 2009, the share of loans at risk of impairment constituted 15.5% of total portfolio while as at 31 December 2008 this constituted 12.1% of total portfolio. The slight increase came primarily from the classifiable portfolio accounted for individually.

Loans to non-bank sector by risk of impairment, gross

	As at			
PLN '000	**30.06.2009**		**31.12.2008**	
Loans to non-bank sector, gross	tys. zł	Udział %	tys. zł	Udział %
Not at risk of impairment	13,133,841	84.5%	13,996,738	87.9%
At risk of impairment	2,405,732	15.5%	1,930,903	12.1%
accounted for individually	1,716,315	11.0%	1,389,105	8.7%
accounted for collectively (on a portfolio basis)	689,417	4.4%	541,798	3.4%
Total loans to non-bank sector, gross	**15,539,573**	**100.0%**	**15,927,641**	**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 2009 the impairment of the portfolio was PLN 1,729.5 million, which represented an increase of PLN 268.8 million (or 18.4%) compared to the end of December 2008. The higher increase in impairment losses of PLN 145.3 million or 14.5% compared to December 2008, occurred in the individually accounted for portfolio. The provision coverage index grew from 9.2% at the end of 2008 to 11.1% at the end of June 2009.

Impairment of non-bank loan portfolio

PLN '000	As at 30.06.2009	31.12.2008	Change PLN '000	%
Net impairment losses incurred but not reported (IBNR)	106,359	70,701	35,657	50.4%
Impairment of receivables	1,623,144	1,390,050	233,094	16.8%
accounted for individually	1,145,793	1,000,523	145,270	14.5%
accounted for collectively (on a portfolio basis)	477,351	389,528	87,824	22.5%
Total impairment	**1,729,503**	**1,460,752**	**268,751**	**18.4%**
Total provision coverage index	11.1%	9.2%		
Provision coverage index for receivables at risk	67.5%	72.0%		

1.3 Off-balance sheet exposures

As at 30 June 2009 off-balance sheet exposures of the Group amounted to PLN 13,433.1 million, representing a decrease of PLN 93.4 million (or 0.7%) as compared to 31 December 2008. The largest change occurred in guarantees, which decreased by PLN 387.4 million or (16.5%).

Off-balance sheet exposures

PLN '000	As at 30.06.2009	31.12.2008	Change PLN '000	%
Guarantees	1,961,692	2,349,068	(387,376)	(16.5%)
Letters of credit issued	224,832	188,228	36,604	19.4%
Third-party confirmed letters of credit	8,709	10,141	(1,432)	(14.1%)
Committed loans	11,027,472	10,949,511	77,961	0.7%
Underwriting	-	29,500	(29,500)	(100.0%)
Forward placements	210,349	-	210,349	-
Total	**13,433,054**	**13,526,448**	**(93,394)**	**(0.7%)**
Provisions for off-balance sheet liabilities	39,825	8,520	31,305	367.4%
Provision coverage index	0.30%	0.06%		

As at 30 June 2009 total amount of collateral established on assets or held on accounts of the Bank's borrowers amounted to PLN 2,615 million whereas as at 31 December 2008 it stood at PLN 4,597 million.

In the first half of 2009 the Group issued 10,081 enforcement titles amounting to a total of PLN 225.5 million while in the first half of 2008 the issued enforcement titles numbered 2,132 and stood at PLN 59.8 million.

As at the end of the first half of 2009 the total value of guarantees pledged by the Bank or its subsidiaries to any single entity or its subsidiary did not exceed 10% of the Group's equity.

1.4 Information about substantial transactions with affiliated entities conducted on other than market terms

All the Bank's and its subsidiaries' transactions with affiliated entities in the first half of 2009 were conducted on market terms.

2. External funding

As at 30 June 2009 overall external funds held by the Group reached PLN 28,256.6 million, which was PLN 1,088.9 million (or 3.7%) lower than at the end of 2008.

External funds

	As at		Change	
PLN '000	**30.06.2009**	**31.12.2008**	**PLN '000**	**%**
Due to financial sector	**7,554,154**	**7,922,260**	**(368,106)**	**(4.6%)**
Funds on current accounts, including:	1,731,900	2,089,692	(357,792)	(17.1%)
- funds on current accounts of banks and other monetary financial institutions	*977,407*	*1,212,394*	*(234,987)*	*(19.4%)*
Deposits, including:	5,817,727	5,828,349	(10,622)	(0.2%)
- deposits of banks and other monetary financial institutions	*1,259,703*	*2,122,493*	*(862,790)*	*(40.6%)*
Accrued interest	4,527	4,219	308	7.3%
Due to non-financial sector	**19,392,744**	**19,935,072**	**(542,328)**	**(2.7%)**
Funds on current accounts, including:	7,611,563	7,476,940	134,623	1.8%
- corporate clients	*2,916,639*	*3,336,662*	*(420,023)*	*(12.6%)*
- individuals	*3,521,632*	*3,181,256*	*340,376*	*10.7%*
- budgetary units	*678,714*	*611,357*	*67,357*	*11.0%*
Deposits, including:	11,759,414	12,431,216	(671,802)	(5.4%)
- corporate clients	*8,346,399*	*8,457,649*	*(111,250)*	*(1.3%)*
- individuals	*1,960,181*	*2,291,343*	*(331,162)*	*(14.5%)*
- budgetary units	*810,430*	*1,171,453*	*(361,023)*	*(30.8%)*
Accrued interest	21,767	26,916	(5,149)	(19.1%)
Other liabilities, including:	**1,309,733**	**1,488,166**	**(178,433)**	**(12.0%)**
Loans received	1,082,418	1,253,420	(171,002)	(13.6%)
Accrued interest	2,811	4,818	(2,007)	(41.7%)
Total external funding	**28,256,631**	**29,345,498**	**(1,088,867)**	**(3.7%)**

Within the liabilities towards financial sector category the greatest change involved contraction by PLN 862.8 million (or 40.6%) in funds on current accounts of banks.

Within the liabilities towards non-financial sector category the most substantial decrease occurred in funds on current accounts of corporate clients and it amounted to PLN 420.0 million (or 12.6%), while the highest growth was observed in the current accounts of individuals (an increase of PLN 340.4 million or 10.7%).

Liabilities to non-bank customers and clients

	As at		Change	
PLN '000	**30.06.2009**	**31.12.2008**	**PLN '000**	**%**
Liabilities towards:				
Individuals	5,514,126	5,528,996	(14,870)	(0.3%)
Non-financial economic entities	11,929,028	12,298,482	(369,454)	(3.0%)
Non-profit institutions	584,257	451,278	132,979	29.5%
Non-bank financial institutions	4,421,910	4,581,503	(159,593)	(3.5%)
Public sector	1,489,693	1,784,515	(294,822)	(16.5%)
Other liabilities	77,906	73,070	4,836	6.6%
Total	**24,016,919**	**24,717,844**	**(700,924)**	**(2.8%)**
PLN	19,138,394	20,575,953	(1,437,559)	(7.0%)
Foreign currency	4,878,526	4,141,891	736,636	17.8%
Total	**24,016,920**	**24,717,844**	**(700,924)**	**(2.8%)**

3. *Corporate Bank*

3.1 *Summary segmental results*

PLN '000	**First half of**		**Change**	
	2009	**2008**	**PLN '000**	**%**
Net interest income	385,801	267,271	118,530	44.3%
Net commission income	114,982	134,435	(19,453)	(14.5%)
Dividend income	3,189	2,469	720	29.2%
Net gains on financial instruments held for trading and on revaluation	94,084	197,581	(103,497)	(52.4%)
Net gains on investment debt securities	35,245	29,095	6,150	21.1%
Net gains on investment equity securities	3,437	(168)	3,605	(2,145.8%)
Net other operating income	34,596	42,427	(7,831)	(18.5%)
Total income	**671,334**	**673,110**	**(1,776)**	**(0.3%)**
Overheads and general administrative expenses and depreciation	(325,623)	(365,134)	39,511	(10.8%)
Net gains on sale of fixed assets	1,896	1,223	673	55.0%
Net change in impairment losses	(230,944)	8,887	(239,831)	(2,698.7%)
Share in net profits/(losses) of entities valued by equity method	(509)	1,809	(2,318)	(128.1%)
Profit before taxation	**116,154**	**319,895**	**(203,741)**	**(63.7%)**
Cost / Income	**48.5%**	**54.2%**		

The main determinants of the Commercial Bank's gross profit in the first half of 2009 as compared to the equivalent period of 2008 were:

- an increase in net interest income, primarily resulting from a growth in available-for-sale debt securities portfolio and lower cost of non-financial sector deposits,
- a decrease in net fee and commission income stemming from lower income on custody services and brokerage operations,
- a decline in net gain on financial instruments held for trading and on revaluation. Despite strong volatility on the financial markets, the Bank continued active sale of products to customers in the first half of 2009. However, adjustment of the valuation of counterparty credit risk related to transactions on derivatives was included in net gain on financial instruments held for trading and on revaluation, which has decreased it by the amount of PLN 62.8 million,
- lower Bank's expenses attributable mainly to lower staff expenses and depreciation expense,
- net impairment losses higher than in an equivalent period of 2008 are an effect of deteriorating financial condition of the Bank's clients, primarily stemming from customers' problems with settlement of term currency transactions concluded in 2008 (PLN 124.3 million impairment losses) and general slowdown in the economy and on exports markets. As a result Bank created provisions on receivables resulting from closed and matured currency transactions as well as other loans of the customers. Also an increase of incurred but not reported (IBNR) impairment losses occurred as a result of the economic slowdown.

3.2 *Transaction Services*

The Bank offers comprehensive, differentiated and modern products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, such as current bank accounts, domestic and international money transfers or accepting deposits, it delivers modern liquidity management solutions (Consolidated Account, Cash Pool) as well as mass payments and receivables management products (Speedcollect, Direct Debit, Unikasa).

By combining the traditional with the best of modern banking solutions, the Bank has pursued with effective consistency the strategy of broadening its product offer, with inclusion of truly innovative services. Within the context of that strategy the Bank developed relationships with Poland's top universities. In the first half of 2009, it implemented the joint "Innovations in Banking" program with those universities.

3.2.1 Transaction Servicing

a) Liquidity and Cash Management Products

The Bank is a leading supplier of corporate liquidity management solutions in the Polish banking market. With over decade long experience of offering cash pooling solutions, the Bank has become for its clients a reliable partner in the employment of effective liquidity management solutions.
The Bank offers:

- virtual cash pooling,
- actual cash pooling; and
- actual cash pooling without reverse transfers.

The list of clients using the Bank's liquidity management solutions includes several dozen capital groups. Cash pooling structures enable the Bank's clients to manage their financial effectively within their capital groups at the same time minimising their liquidity risk. The benefits accruing from utilisation of cash pooling structures are material and of particular value under the current financial market conditions.

b) Electronic Banking

By end of the first half of 2009 the number of corporate clients operating the CitiDirect internet banking system rose by 10% compared to the end of the first half of 2008 and reached nearly 9,900. The CitiDirect system is the primary electronic banking platform the Bank offers its corporate clients.
The number of transactions processed electronically by CitiDirect remained at a high level and exceeded 10.5 million in the first half of 2009. Total value of those transactions exceeded PLN 300 billion.
The share of bank statements delivered only in the electronic form reached 90%, which represents growth of 4% YOY.

c) Payments and Receivables

- *Unikasa*

Unikasa is a brand that enjoys high rates of recognition in the mass payments market. 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. In the first half of 2009 the Bank continued to work towards optimising operating costs of the Unikasa Payment Processing Network and implementation of additional agency model customer service points. The newly implemented business model of this activity gives the Bank's counterparties the choice of running the payment processing system as their own branded network (White Label) or under the Unikasa Partner brand. Application of this new approach allowed the Bank to penetrate smaller outlets with its Unikasa service points. Unikasa is now present in over 250 cities throughout Poland. In parallel to the processes of establishing new service outlets and acquisition of new invoice issuers, the Bank continues to optimise the network's fixed cost base as well as to wind down any unprofitable distribution channels.

- *Direct Debit*

In the first half of 2009 the Bank retained its position of leadership among banks servicing outbound direct debit transactions. Its market share is estimated at close to 40%. In the first half of 2009 the Bank registered 7% increase in the volume of direct debit transactions it processed compared to equivalent period a year earlier.

- *Loro Accounts*

In the first quarter of 2009 the Bank collaborated with KIR S.A (national clearing house) and a number of other banks in implementation of payment processing that does not rely on account numbers in the NRB format; through the ELIXIR clearing system. Implementation of this solution has substantially improved effectiveness of clearing interbank payments.

- *Foreign Bank Transfers*

In the first half of 2009 the Bank implemented a number of initiatives in the field of foreign bank transfer payments. The introduced changes are expected to further accelerate and facilitate the payment processing, and ultimately increase customer satisfaction. Moreover, the Bank implemented a modification in booking of outbound foreign bank transfers when available funds are temporary insufficient for their implementation. The process accelerates customer service and makes more effective use of the funds available to the Bank. The table of *cut off times* for transactions of this type the Bank currently follows is perceived as the one of the most attractive in the Polish banking market.
Another important initiative in the field of foreign bank transfers involves extension of the time band in which bookings of incoming transfers in the currencies most frequently used in international trade transactions (EUR and USD) are processed.

- *Mobile Payments*

In the first half of 2009 the Bank developed the solution model and prepared the necessary infrastructure for its new Pay By Mobile Phone service. With it, customers are enabled to execute transactions through their mobile handsets. The Bank is the first one in the Polish market to have implemented a service of this kind. The Pay By Mobile Phone service in available to holders of prepaid cards issued by the Bank and of current accounts in it.

- *MicroPayments*

In the first half of 2009 the Bank continued to strengthen its position of leadership in the market segment in which it offers the MicroPayments product. MicroPayments are used by institutions and entities which accept cash deposits from various payers and have the obligation of returning these together with accrued interest. Courts and prosecution administrations are the clients who use that product.
At the end of the first half of 2009 the number of active clients using MicroPayments stood at 75, which represents nearly 60% growth compared to equivalent period a year earlier. The Bank is looking to increase the number of clients using that service.
Aiming to provide comprehensive servicing of deposits and to facilitate management of such payments, the Bank is making available additional new functionalities, which further tailor the solutions included in the product to the clients' needs.

d) Card Products

The Bank occupies the position of indisputable leader in the pre-paid payment cards market in Poland. At the end of the first half of 2009 its estimated market share stood at 73%. The product is most frequently used under loyalty, promotional and incentive programs. It also serves as an excellent instrument of social benefit distribution. In the first half of 2009 the Bank continued to actively promote its pre-paid cards, also among its corporate clients.
At the end of June 2009 the number of actively used pre-paid cards exceeded 380,000, which represents over 35% growth as compared to the number of these cards active at the end of the first half of 2008.
The Bank has also sought to strengthen its position in the business cards segment. At the end of the first half of 2009 the number of active cards of that type reached 18,500, which represents 5% growth compared to equivalent period in 2008.
Since the beginning of 2009 business card holders can have their account statements in the PDF format emailed to them as well as available via the CitiDirect electronic banking system. The Bank expects these new forms of bank statement distribution to increase further the customer satisfaction ensuing from the product and service quality. The new service cuts down considerably on the document delivery times and archiving costs.

e) Cash Products

With its extensive experience in servicing cash products, the Bank offers its clients a broad range of solutions and high service provision security. Owing to its strong market position in the field of cash products, the Bank has been a frequently chosen partner of firms and enterprises handling large volumes of cash.

The cash product which has grown most rapidly is the exchange of domestic and foreign legal tender with other banks. The first half of 2009 was a period in which volumes of handled cash rose at dynamic rates: by over 4.5-fold as compared to equivalent period a year earlier. The number of banks using that service rose exponentially in year-over-year terms. The Bank also expanded the basket of currencies in which the service is available.

In the first half of 2009 the number of clients using the electronic Bank Payment Receipts rose substantially. This solution became part of the Bank's standard product offer as it reduces the risk of error in booking of cash payments as well as transaction time.

The Bank continually works to optimise its cash handling costs. In the first half of 2009 it implemented a convoy route reorganisation project. The initiative has led to a significant reduction in total costs of cash transportation between the Bank and its outlets, ATMs and Automatic Deposit Machines.

f) EU Office

In the first half of 2009 EU Office continued its information initiative among prospective clients. It also actively supported clients already using the Bank's EU offer. The collaboration resulted in acquiring of EU funds for projects designed by the clients.

In the field of EU funds advisory, the EU Office conducted a specific campaign addressed to clients of the small and medium enterprise segment. The campaign informed about the possibilities of application to EU funds via the Bank. This resulted in growth of interest among the Bank's clients in utilisation of EU funds in their operations, which translated directly into signing of new EU advisory contracts with these clients.

3.2.2 Trade Finance Products

In the first half of 2009 the Bank continued activities aimed at intensifying sales, improvement of efficiency and launch of new technical solutions in trade finance.

In the first half of 2009 the Bank conducted a marketing campaign promoting factoring services. Its promotional message was "Surf and Do Not Lose Liquidity". The campaign emphasised the benefits of factoring as a liquidity management tool, which are of particular significance in the face of credit market restrictions. The high cost of credit and its limited accessibility are the factors that enhance attractiveness of factoring as an alternative source of funding. The campaign also aimed to bring out the Bank's competitive advantage in the field of factoring:

- debt financing of up to 100%;
- simple handling procedures;
- electronic data transmission;
- no requirement for turnover declaration.

The Bank's aim is a continued improvement in customer satisfaction ensuing from quality of the rendered services. Actions aimed at upgrading the technical solutions used in communication between the client and the Bank have been an important aspect of this. The eTrade platform is a tool, which enables the Bank's clients to exchange documents relating to trade finance products. In the first half of 2009 the Bank introduced modifications in that application, which permit faster and more effective transfer of such documents. Clients can now combine and send entire document packages. The process of implementation of a new eTrade platform user was also substantially shortened.

The Bank continues actions aimed at increasing the trade finance products volumes, which rely on relations with other banks in the Citigroup network. In the year 2008 it concentrated on transactions involving Polish counterparties as the beneficiaries. In the first half of 2009 these actions sought to increase the number of transactions initiated by Polish companies, in which overseas counterparties were the beneficiaries.

The most noteworthy trade finance achievements of the first half of 2009 included:

- intensified implementation of Supplier Financing Programs resulting in signing 35 actual factoring agreements;
- implementation of the first supplier within the Supplier Financing Program; for a global leader in construction services;
- implementation of a comprehensive debt receivables financing program (both operated before the due date (discounting) and at the due date (distributor credit)); for a leading global fertilizer manufacturer;
- implementation of a comprehensive debt receivables financing program; for a leading global car manufacturer;
- co-organiser of the Trade Academy, a series of meetings with the SME sector clients. The Trade Academy became a platform for discussion of the Bank's trade finance offer;
- organising of a conference for the Bank's global clients. Presentation of the Bank's capabilities in organisation of loyalty programs for suppliers and distributors; and
- launch of the import L/C discounting product.

3.2.3 Custody and Depositary Services

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

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

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

The Bank also processes transactions closed by corporate customers on the electronic trading platform for debt securities, operating under the name of MTS-Poland and organised by MTS-CeTO S.A., and processes transactions in securities for remote members of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE) and MTS-CeTO S.A.

Over the period the Bank continued activities aimed at honing the effective legislation regulating the securities market. Since the end of September 2008 the Bank's representative has chaired the Council of Depositary Banks at the Association of Polish Banks. At the same time the Bank participated in project pursued by the advisory committee to Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities or NDS). The Bank's experts also worked to develop capabilities for implementation of securities loans and short sale under Polish legal system. When finalised, the projects mentioned here for illustrative purposes are going to contribute to aligning the Polish market practices with the international standards. The Bank continues to invest its human and technical resources, experience and expertise into cooperation with the Polish Financial Supervision Authority, NDS and WSE with the aim of implementation of new systemic solutions.

Representatives of the Bank participated in working groups formed by the Association of Polish Banks (in particular of the Steering Committee for General Shareholders Meeting Standards, the Information Issues Group and the Electronic Banking Issues Group), the Financial Market Development Council and WSE.

As at 30 June 2009 the Bank serviced 13,158 securities accounts.

At the same time, the Bank was the depositary for seven Open Pension Funds:
- AIG OFE
- Aviva OFE Aviva BZ WBK
- Generali OFE
- ING OFE
- OFE Pocztylion
- Pekao OFE
- Nordea OFE

and two Employee Pension Funds:
- Employee Pension Fund PZU "Sunny Autumn",
- Employee Pension Fund of Telekomunikacja Polska S.A.

The Bank also acted as the depositary of 42 investment funds and sub-funds managed by the following Investment Fund Companies:
- BZ WBK AIB TFI S.A.
- PKO TFI S.A.
- OPERA TFI S.A.
- PIONEER PEKAO TFI S.A.
- LEGG MASON TFI S.A.
- AVIVA INVESTORS POLAND TFI S.A.

3.3 Treasury

In the first half of 2009 the Bank retained its strong position in the FX market involving nonbanking clients.
The development of CTI (CitiTreasury Interactive) internet platform, over which clients execute FX trades, warrants particular mention. It has enjoyed unwavering popularity in the first half of 2009, as seen in the over 30% growth in the number of its users and approximately 26% growth in the volume of transactions closed over it in YOY terms.
The Bank also registered relatively strong results from trading in government securities. The volume of transactions executed in the period with institutional counterparties rose by nearly 25% compared to the first half of 2008.
The first half of 2009 was also a period in which the Bank generated solid results from trading in complex derivative instruments, primarily interest rate linked. It was able to register over 100% raise in trading volumes here compared to the equivalent period a year earlier.
The above description of the Bank's treasury division activities relate to its operational results and does not reflect the impact of any FX option revaluation impairments.

3.4 Corporate Bank and Commercial Bank

The Bank believes that any company that operates in Poland, except sectors excluded permanently under the general policy of the Bank and companies included in the watch list due to international or U.S. sanctions, is its prospective commercial banking customer. The Bank's position is particularly strong in servicing international corporations and the largest Polish companies. In developing relationships with the largest clients, the Bank has the significant advantage of being a member of Citigroup. The Bank can offer to these clients some unique services that blend its own knowledge of the local business environment with the international experience and global reach of Citigroup.
Through its commercial banking franchise the Bank channels comprehensive financial services to the largest Polish companies, strategic companies with strong growth fundamentals as well as the largest financial institutions and public sector companies.
One common characteristic of the commercial banking clients is their need for advanced financial products and financial services advisory. The Bank provides in that area coordination of treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovativeness

and competitiveness of the novel financing structures on offer come from a combination of local expertise and experience of the Bank and its cooperation within the global Citigroup structure.
As far as the assets are concerned, the Bank has continued to pursue the strategy of efficient fund allocation, with particular attention devoted to liquidity management.

Assets

			Change	
PLN m	**30.06.2009**	**30.06.2008**	**Amount**	**%**
Total Commercial Bank	**8,558**	**10,033**	**(1,476)**	**(15.0%)**
Including:				
SMEs*	850	920	(70)	(8.0%)
MMEs*	1,146	1,598	(452)	(28.0%)
Public Sector	91	86	5	5.0%
Global Clients	3,061	4,186	(1,125)	(27.0%)
Strategic Clients	2,233	2,031	203	10.0%

Enterprises with a yearly turnover lower than PLN 75 million are classified as SMEs, those above this limit belong to MMEs category

Liabilities

			Change	
PLN m	**30.06.2009**	**30.06.2008**	**Amount**	**%**
Total Commercial Bank	**17,158**	**17,097**	**61**	**0**
Including:				
SMEs	1,776	2,132	(356)	(17%)
MMEs	1,194	1,495	(301)	(20%)
Public Sector	2,043	2,119	(76)	(4%)
Global Clients	7,575	8,035	(460)	(6%)
Strategic Clients	4,430	3,256	1,174	0%

3.4.1 Key initiatives in the Global Clients Segment

The first half of 2009 was yet another period of continued good business in Global Clients Segment. The Bank entered into collaborative relationships with 37 new entities, with the expectation of their fruitful development in the coming years. It also won a number of significant tenders for comprehensive provision of banking services to major international corporations, which has certainly reinforced the Bank’s strong position of a strategic partner of multinational corporations co-operating with Citi’s global network. Aiming to meet the expectations of multinationals, the Bank has rolled out specific global cash management solutions, which in these times of economic slowdown have been meeting with positive response as enhancing effectiveness of group liquidity management. These solutions have proven closely responsive to the liquidity requirements of our Global Clients.
The first half of 2009 was also a period in which our clients took very active interest in factoring services, which provide large multinationals with systemic support for their suppliers and buyers, primarily representatives of the SME sector. Such solutions have operated successfully in companies representing the FMCG sector and the chemical sector.
The Commercial Bank also implemented a number of structures enhancing liquidity management in its client groups and one innovative trade finance project.

3.4.2 Key initiatives in the Strategic Clients Segment

The Commercial Bank engineered a series of new transactions in the first half of 2009. In January 2009 it implemented actual cash pooling structures for a fuel sector client (20 entities) and a risk hedging transaction in the context of an intergroup loan; for a client of the same sector. In February it executed a transaction hedging the commodity price risk for a metals and mining sector client. In April the Bank restructured a long term financing for an important fuel sector client.
The Commercial Bank also managed and took up part of the final tranche of a long term bond issued to co-finance the building of the most modern power unit in Poland.

3.4.3 Key initiatives in the Middle Market Enterprises Segment (MMEs)

In the first half of 2009 the Bank expanded its product offer as it closed an agreement with Saski Partners on M&A cooperation for the benefit of the MME clients. In addition, the Bank executed a number of key transactions for working capital finance, contract financing and a municipal bond issue program for the city of Białystok, and it established a number of new accounts for courts within MicroPayments product packages.

3.4.4 Key initiatives in the Small and Medium Enterprises Segment (SMEs)

The first half of 2009 was a period in which the Bank was able to verify the effectiveness of the changes introduced in mid-2008 in the SME segment, within the bank's commercial and retail banking.
Those changes in the product offer and the service model of the segment can be assessed positively, particularly in the light of the achievements in acquisition of new clients, both through the branch network, i.e. the 30% growth compared to the equivalent period a year earlier, and through the bank relationship managers, who overshot their targets for the fist half of the year by 10%.
Irrespective of these good results, the Bank has proceeded to implement additional solutions aimed at tailoring its offer to the needs of its clients. For the benefit of the smallest microenterprises it launched the Capital White package, which offers waver of the monthly fee for the package in exchange for active use of non-cash payments with a debit card. In a similar way, the larger SME segment clients were offered the option of reducing their monthly fee in exchange for maintaining sufficient balances on their current accounts. Both of these developments result from the Bank's strategy of consistently promoting the clients who actively collaborate with it.
The changes which the Bank introduced in its servicing of the SME segment met with praise of the honorary chapter of the 10th edition of the Bank Friendly to Entrepreneurs competition, which awarded the Bank the Honorary Mention and the Promotional Emblem.
Effects of the economic downturn nonetheless evidenced themselves in the somewhat weaker revenue stream coming from the SME segment compared with that of year ago, in which most of the revenue came from interest on liabilities and trade finance. The decline of market rates with accompanying major pressure to limit deposit margins coupled with material decline in FX trading volumes impacted in some way the financial result.

3.5 Brokerage

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

In the first half of 2009 DMBH acted as an intermediary in 12.7 % of secondary equities trading transactions. Over the period value of equity trades executed via DMBH on WSE reached PLN 18.7 billion (growth of 12.0% compared to the equivalent period of 2008) while trading over the entire WSE market declined by 12.7 % compared to the equivalent period of 2008.

The continuing declining trend in the equities market trading was the main factor influencing DMBH's financial result for the first half of 2009. In spite of this, because of its significant exposures to institutional clients DMBH achieved a position of market leadership with 12.7% market share.

The number of investment accounts maintained by DMBH as at the end of the first half of 2009 stood at 10,432 (compared to 9,812 accounts at the end of 2008), which represents a growth of 6.3%.

As at the end of the first half of 2009 DMBH performed the role of the Market Maker for 34 companies, which represented 9.12% of all the equities traded on WSE. Additionally, the Own Investments Section is the Market Maker for futures and options contracts for the WIG20 index and MW20 index units. The companies DMBH serves as the Market Maker include foreign entities with parallel listings on their markets of origin (MOL and ORCO Property Group). DMBH is one of the leading Market Makers, both is terms of the number of companies it thus serves and of value of trading it generates. On 19 February 2009 WSE singled out DMBH with an award for the highest market making activity in equities trading over the main floor of the bourse in 2008.

In the first half of 2009 DMBH acted as the Offeror in the offering of A-series Certificates of the Legg Mason Closed Investment Concentrated Equities Fund, which issued up to 300,000 of these certificates, with nominal value of PLN 1,000 each. The Certificate Issue was conducted in June 2009, with value of the subscribed Certificates reaching PLN 36,102,000.00. The Certificates will be subsequently admitted to public trading on WSE.

In the first half of 2009 DMBH in the framework of brokerage activities began offering corporate advisory on capital structure and corporate strategy, other issues relating to such structure or strategy, as well as counselling and other services in the scope of corporate mergers, composition and acquisition.

Summary Income Statement and Balance Sheet*

Company name	Headquartered	Participation interest of the Bank in equity	Balance sheet total as at 31.06.2009	Equity as at 31.06.2009	Net financial result of 1H 2009
		%	*PLN 000'*	*PLN 000'*	*PLN 000'*
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	395,220	86,387	3,936

** Unconsolidated unit data, not audited in the course of the year*

3.6 Leasing

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

In the first half of 2009 the new business leasing agreements reached PLN 142.7 million. Compared to PLN 431.0 million of new agreements signed in the first half of 2008 this represents a decline of 67%.

Structure of the leased assets in the first half of 2009 was as follows:
- machinery and equipment contracts dominated as they represented 60.5% of the leased fixed assets;
- share of heavy transport vehicles constituted 39.5% of total financed movables.

Value of new lease agreements

PLN m	**first half of 2009**	**first half of 2008**	**Change**	
			PLN m	**%**
Value of leases contracted in the period	142.7	431.0	(288.3)	(66.9%)
- for vehicles	56.4	278.9	(222.5)	(79.8%)
- for machinery and equipment	86.4	152.1	(65.7)	(43.2%)

** The comparative data in respect of 1H 2008 presented here differ from the data presented in the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 1H 2009 due to a change in methodology of presentation. The adjustment is made in compliance with guidelines of the Polish Leasing Association.*

The key factors impacting the decline in leased asset value which occurred in the first half of 2009 included:

- general economic conditions;
- the persisting strong dampening of demand in the heavy transport vehicles market, which in the past years drove the company's growth;
- the clients reducing their capital expenditure plans in the face of the uncertain economic conditions and escalating financing costs;
- the financial sector, including the leasing segment registering increased credit risk.

As a result of these acquisition of transactions among the Bank's clients was below expectations.

The company has at this time focused on serving the Bank's existing clients and growing the Handlowy-Leasing brand recognition in the market.

It continues to give priority to the quality of its credit portfolio, which it achieves by adjusting its operations to the prevailing economic conditions, risk assessment of new transactions and high degree of discipline in management of the credit portfolio.

Summary Income Statement and Balance Sheet*

Company name	Headquartered	Participation interest of the Bank in equity	Balance sheet total as at 30.06.2009	Equity as at 30.06.2009	Net financial result in 1H 2009
		%	PLN 000'	PLN 000'	PLN 000'
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	1,479,815	174,861	944

** Unconsolidated unit data, not audited in the course of the year*

4. Consumer Bank

4.1 Summary segmental results

PLN '000	**First half of**		**Change**	
	2009	**2008**	**PLN '000**	**%**
Net interest income	388,177	379,414	8,763	2.3%
Net commission income	139,967	194,960	(54,993)	(28.2%)
Dividend income	2,736	2,247	489	-
Net gains on financial instruments held for trading and on revaluation	20,493	17,562	2,931	16.7%
Net other operating income	(4,079)	(713)	(3,366)	471.9%
Total income	**547,294**	**593,470**	**(46,176)**	**(7.8%)**
Overheads and general administrative expenses and depreciation	(399,639)	(427,211)	27,572	(6.5%)
Net gains on sale of fixed assets	207	224	(17)	(7.6%)
Net change in impairment losses	(102,052)	(45,021)	(57,031)	126.7%
Profit before taxation	**45,810**	**121,462**	**(75,652)**	**(62.3%)**
Cost / Income	**73.0%**	**72.0%**		

The main determinants of the Consumer Bank's gross profit in the first half of 2009 as compared to an equivalent period of 2008 were:

- a growth in net interest income as compared with the equivalent period of 2008 stemming primarily from a growth in the credit cards and cash loans portfolio,
- a significant decrease of fee income related to investment products, caused by very unstable situation on financial markets,
- a decrease of expenses resulting from optimalisation process in the scope of employment and lower marketing expenses,
- an increase of net impairment losses caused by growth of incurred but not reported (IBNR) losses resulting from the economic slowdown and a growth in cash loans and credit cards portfolios as well as an increase of delinquent receivables share.

4.2 Credit cards

In the first half of 2009 the Bank sold over 120,000 new credit cards while total number of issued credit cards, as at 30 June 2009, exceeded 1,061,000. Co-branded cards represented 56% of cards portfolio. The Bank strengthened its market position in terms of the number of issued credit cards; it ranked fourth in this category in the latest published league tables. The Bank's clients are recognised as very active card users, both in terms of the number and value of transactions per card.

Starting in May 2009 all new credit cards issued to individual customers have an embedded microprocessor. This represents another of the security solutions – card holder's signature and photograph and the 72-hour insurance coverage in case of card loss – that make Citibank credit cards one of the safest products of their type in the market.

The security features of the Citibank Credit Cards met with recognition of various independent rankings. The Consumers' Federation conducted comparative tests of financial products offered by 35 banks operating in the Polish market. In a league table arranged in the context of the European *Finformation* (Financial Information) project, Citibank Silver Credit Card received honourable mention for its superior security profile, the free-of-charge card blockading service and the immediate card replacement.

The Bank also continued to develop innovative methods of selling Credit Cards. One of these involves an internet-based financial services system relying on on-line connection to the Bank. With this facility, any customer deciding to apply for a credit card can receive a return information on the preliminary credit decision in a few seconds.

Between mid-April and the end of June 2009 holders of Citibank-LOT Credit Cards were invited to participate in AMIGOS Lottery. All that those wishing to take part in the drawing for one of the three four-member tours to Barcelona needed to do was to execute at least one non-cash transaction of minimum PLN 50.

The Bank stand located at Terminal 2 of the Warsaw Chopin Airport has continued to enjoy great popularity among the travellers choosing to fly PLL LOT. Future plans provide for expansion of the presence of the Bank's representatives to other Polish airports. At the end of June 2009 the number of Citibank-LOT Credit Cards reached nearly 46,000.

In early June 2009 the Bank introduced changes to the price list of Credit Card products. Clients executing the first transaction with their card within two months of its issuance are awarded reimbursement of 50% of their annual fee in the first year of card use.

Two new partners with attractive brands decided to join the Citibank Credit Cards Discount Program. At present the Discount Program includes over 3,500 retail trade and service outlets throughout Poland, where card holders can take advantage of discounts of up to 70%. The Citibank Credit Cards Discount Program for holders of Citibank Credit Cards remains the largest program of its type in the Polish market.

4.3 Consumer Bank

4.3.1 Bank Accounts

In the first half of 2009 the Bank consistently implemented its strategy of active customer acquisition. This took the form of offers in which the customers having their pay transferred to the Bank were able to obtain favourable account maintenance fee terms. The CitiGold Plus offer was addressed to the affluent segment customers, and related to transfers of pay of PLN 15,000 and above, while the CitiKonto Plus promotion was aimed at customers able to commit to monthly pay transfers in amounts of at least PLN 1,500. The number of bank accounts at the end of June 2009 exceeded 339,000.

In these times of low interbank market liquidity, the Bank pays much attention to maintaining deposit balances. Its customers can take advantage of a promotional offers of: a 3-week internet deposit bearing annual interest of 6.2%; a 3-month deposit available through all of the Bank's access channels and bearing annual interest of 5.15% to 5.55%; and an SMS 3-month deposit with annual interest of 6.2% for new funds, which is addressed to a preselected group of customers. The Bank also launched the innovative *TurboProcent* deposit, which lends the customer an opportunity of increasing interest on their deposit by executing non-cash transactions through their debit card. The maximum interest achievable that way is equivalent to fourfold the rate of the Lombard loan issued by the National Bank of Poland, though it is capped at 18% per year. The Bank also marketed package deals: in the first quarter of 2009 this was an offer combining the Plus Investment Program with a deposit bearing interest of up to 15% per year; in the second quarter a deposit bearing interest of up to 10% was available with the following products – the Orchid Guaranteed Withdrawals Plan, the Plus Investment Program, the Global Investment Portfolio, the Foreign Funds Portfolio.

Another offer enhancement measure involved introduction of nonfinancial privileges for customers holding an account with the Bank. Since April 2009 the Bank has offered its customers the possibility of using private health care as part of the complementary services that come with the personal account.

At a monthly fee of PLN 22.99 customers can obtain standing access to medical doctors and laboratory tests and examination procedures through private health care units throughout Poland (*LUX MED*, *Medycyna Rodzinna* or *Promedis*).

In acquiring the Medical Care Package, the account holder obtains coverage for three members of their immediate family (e.g. spouse, children). In addition, customers actively using their accounts can use their health package at a reduced price.

Active account users who also service their Citibank-Plus Credit Card through their account can since June 2009 gain 50 bonus points under the 5Plus Program, provided that the repayments they make are minimum PLN 30. In addition the customers who open an account during the promotional period will be awarded special welcome bonus points and will be able to take advantage of reduced account maintenance fees, provided they have their pay transferred to the account.

The Bank expanded the registry of privileges available to users of debit card payments. In addition to the opportunity for increasing interest on *TurboProcent* deposits, as mentioned above, these customers can also take advantage of the reduced price Medical Care Package and since April they can enjoy discounts when paying for shopping with their cards in over 1,000 vendor outlets throughout Poland.

The Bank organised attractive events for the existing and prospective Citigold clients, also involving external partners. These focused on relationship building and encouraging investment in the Bank's products.

4.3.2 Credit Products

Cash Loan

In the first half of 2009 the Bank pursued the strategy of being present in the safer market segments, which it achieved through introduction of special offers and marketing materials addressed to a limited number of the main market segments, such as persons with work contract based income, representatives of preselected professional groups and persons receiving retirement or disability benefits.

Individual Cash Loan offers are available on line to users of other products of the Bank with access to the transaction system. The Cash Loan was also promoted among customers via the alternative access channels in the form of text messages sent to mobile phones.

In March and May of 2009 the Consumer Bank managed subsequent releases of the highly successful campaign of The More You Consolidate The More You Gain (*Im więcej konsolidujesz, tym więcej zyskujesz*), which supported the sales of the Bank's consolidation loan through all the distribution channels. The offer involved granting customers reduced interest of up to 1 percentage point to the standard rate, this depending on the consolidated debt amount. The campaign received marketing support, mainly on the local level, in the form of dedicated posters and leaflets, and marketing materials distributed in areas with high concentrations of the target groups.

In April the Bank conducted a campaign addressed to customers interested in reducing their monthly household budget obligations in view of increased seasonal spending. Every customer taking out Cash Loan in April could have their nominal interest reduced by as much as 5% for a period of up to 3 months. The campaign was supported by local marketing activities.

Credit Line

In the first half of 2009 the Bank continued with actions promoting the Credit Line sales, such as: inclusion in the regular product offer for the purpose of cross-selling to customers with regular pay receipts to their personal account with the Bank; and offering the Credit Line product in the course of opening of a personal account. The Bank also undertook actions aimed at increasing effectiveness of the Citibank Credit Line sales process. As a result of those efforts growth trend in sales of the product was achieved. In the first half of 2009 the Bank introduced changes to the loan documentation and operational processes relating to the Citibank Credit Line in order to make them compliant with the new consumer bankruptcy law.

Secured Credit Line

Informed by the conditions prevailing in the securities market, the Bank decided to maintain in the first half of 2009 unchanged the previously introduced restrictions in the accepted collateral against which Secured Credit Lines are granted. In the first half of 2009 the Bank introduced changes to the loan documentation and operational processes relating to the Secured Credit Line in order to make them compliant with the new consumer bankruptcy law.

Mortgage Products

In the area of mortgage products the Bank continued to pursue its Open Architecture strategy framework, within which it offers its customers both proprietary mortgage products (i.e. housing finance loans and mortgage secured cash loans) and those of Dombank and Lukas Bank, its external partners (i.e. housing finance loans, house construction loans and mortgage loans granted for consolidation of the customer's debt or for unspecified purpose).

4.3.3 Investment and Insurance Products

Investment Products

In the first half of 2009 the Bank continued to promote the idea of systematic investments. The campaign involved a series of training workshops which supported the sales of products based on systematic investment with investment funds (Systematic Investment Plans). Such workshops held in cities around Poland were conducted by invited specialists of various investment fund companies (TFIs). The relationship managers, who need to upgrade their knowledge continually, were lent support through numerous product specific training sessions, conference calls devoted to current market developments, workshops with the TFI industry representative and independent financial experts. The customers, in turn, were provided with opportunities for participation in meetings with domestic and foreign fund managers, which were devoted to discussion of the current global market trends, commodities, industries and sectors, currencies and other investment topics.

The product offer was expended to include six new Schroders Investment Management funds, which enriched the palette of international investment funds specialising in debt securities. In June 2009 the Bank coordinated a subscription for Legg Mason Akcji Skoncentrowany FIZ investment certificates.

In the first half of 2009 the Bank investment offer for individual customers included 22 structured bond products denominated in various currencies; primarily in PLN, USD, EUR and GBP. Structured bonds were linked to various instruments (primarily commodities, indices), however, fixed coupon bonds proved to be the most sought after instrument of this category.

In January 2009 the Bank once again incorporated the Citibank Investment Deposits in its offer. The product combines the classical bank deposit with a structured product. In the first half of 2009 the Bank organised 8 subscriptions for Investment Deposit with varying maturities (between 6 months and 3 years), which were linked either to specific currencies, or indices or commodity prices.

Insurance Products

The Bank actively promoted its funded life insurance product, with the Investment Program Plus capital fund and a time-deposit component. Customers closing Investment Program Plus agreements had the choice of opening term-deposits bearing preferential rates of interest:

- 15% in the case of 3-month deposits;
- 12% in the case of 6-month deposits; and
- 9% or 11% in the case of 12-month deposits.

In the first half of 2009 the Bank registered record sales of the Insurance Policy for Good Life, a life and retirement insurance product that represents an attractive and beneficial combination of insurance coverage and a safe regular long term savings plan. The number of executed insurance policies of this type grew systematically; reaching a rate of close to 1,000 new policies per month.

In March 2009 the Bank launched a modified version of its Guaranteed Policy – Life and Retirement Insurance. The legal form of the agreement changed from group to individual policy. The Guaranteed Policy is offered in conjunction with a one-off contribution deposit of a one-, three- or a five-year tenor, with yields competitively exceeding those of bank deposits. The insurance product delivers a guaranteed rate of return and a tax benefit; as the benefits paid at completion of the insurance period are not taxable.

In April 2009 the Bank added two new insurance products to its offer:

- life insurance policy for the customers with Credit Lines in their personal account. The insurance policy incorporates a guaranteed benefit payment in case of the holder's death or permanent work disability by paying down any outstanding Credit Line debt. The insurance premium here is paid monthly and calculated on the amount of outstanding Credit Line debt;
- the insurance package structured for employees of SMEs. This is a group insurance product, which employers can contract for the benefit of their employees. The policy can also provide insurance coverage for the business owner(s). It includes life insurance with a choice of additional options. The main objective of this insurance is to provide insurance protection in the event of hospitalisation, loss of health, disability and death of the insured party. Policy agreements are executed for periods of 12 months and is extendible to subsequent 12-month periods.

In May 2009 the Bank introduced a promotional term deposit offer addressed to the customers executing any of the following funded life insurance policy products:

- the Plus Investment Program
- the Global Investment Portfolio
- the Foreign Funds Portfolio Euro
- the Foreign Funds Portfolio Dollar; or
- the Orchid Guaranteed Withdrawals Plan

The promotion period runs from the end of May 2009 to the end of December 2009. Every customer during the offer validity period will be able to place with the Bank a deposit on promotional terms, with fixed deposit interest of:

- 10% in the case of 3-month deposits;
- 8% in the case of 6-month deposits; and
- 7% in the case of 12-month deposits.

5. Achievements of Respective Sales Channels

5.1 Branch Network

As at 30 June 2009 the branch network consisted of 237 outlets, including outlets of the L type (former Commercial Bank and CitiGold Wealth Management outlets and the Investment Centre), the M type (former multifunctional outlets), the S type (former CitiFinancial branches) and the T type (the agencies or partner outlets).

Seeking to provide customers with superior accessibility to the broad range of its services and products and to further rationalise its cost base, in the first half of 2009 the Bank proceeded to implement new sales network optimisation measures.

The changes currently initiated in the branch network were driven by continually changing market conditions. Specific actions were undertaken addressing the identified needs, such as increasing accessibility to the broad range of available services and products, and improving the offered service quality.

In the first half of 2009 the Bank carried out a project aimed at expanding functionalities of selected branches, formerly operating under the CitiFinancial brand. The available services were expanded through implementation of certain new technological solutions. Installation of new equipment contributed, among others, to expansion of the basket of available currencies, increased operational efficiency and limitation of operational risk relating to handling of cash.

The functionality expansion project was run in the following locations:

- a branch in Bydgoszcz at 27 Stary Rynek street;
- a branch in Gdańsk at 35 Słowackiego street;
- a branch in Gdańsk at 1/5 Rajska street;
- a branch in Gdynia at 21 Władysława IV street;
- a branch in Katowice at 45/47 Słowackiego street;
- a branch in Katowice at 25 Kościuszki street;
- a branch in Kraków at 2 Józefitów street;
- a branch in Kraków at 29 Krakowska street;
- a branch in Kraków at 12 Osiedle Centrum;
- a branch in Łódź at 21 Piotrkowska street;
- a branch in Szczecin at 28 Rayskiego street;
- a branch in Warsaw at 15A Conrada street;
- a branch in Warsaw, 113 Solidarności avenue;
- a branch in Warsaw at 44 Powstańców Śląskich street;
- a branch in Warsaw at 18 Majewskiego street;
- a branch in Warsaw at 4 Garibaldiego street; and
- a branch in Wrocław at 62 Legnicka street.

In parallel the Bank consolidated selected branches previously operating under the CitiFinancial brand. Actions here involved the transfer of these outlets' operations to existing multifunctional branches, which offer a complete range of products.

The following outlet consolidations were carried out:

- merger of the S type branch in Kielce at 12 Rynek street with an existing M type outlet located in Kielce at 58 Sienkiewicza street;
- merger of the S type branch in Piła at 8 Piastów street with an existing L type outlet located in Piła at 15 Piastów street;
- merger of the S type branch in Słupsk at 2/3 Kilińskiego street with an existing L type outlet located in Słupsk at 21 Deotymy street;
- merger of the S type branch in Gorzów Wielkopolski at 36 Sikorskiego street with an existing M type outlet located in Gorzów Wielkopolski at 11 Sikorskiego street;
- merger of the S type branch in Tarnów at 29 Wałowa street with an existing M type outlet located in Tarnów at 5 Wałowa street; and

- merger of the S type branch in Bydgoszcz at 13 Piotra Skargi street with an existing M type outlet located in Bydgoszcz at 1 Gdańska street.

In the first half of 2009 the Bank also conducted the following actions:

- transfer of the L type outlet in Opole at 3 1-go Maja street to a new location at 7/9 Koraszewskiego street;
- merger of outlets (L and S type) in Rzeszów at 3 Cieplińskiego street and transfer of their operations to a new L type branch in Rzeszów at 23 Rejtana street;
- reasons beyond the Bank's control led to closing of the M type outlet in Gdynia at 7 10-go Lutego street, with the customer/client services transferred to the other branches in Gdynia;
- occurrence of conditions preventing extension of the lease contract led to closing of the M type outlet in Gdańsk at 12/14 Targ Drzewny street, with the customer/client services transferred to the other branches in Gdańsk;
- a decision to sell the property led to closing of the L type outlet in Oborniki Wielkopolskie at 64 Piłsudskiego street, with the customer/client services transferred to branches in Poznań;
- because of the upcoming lease contract expiry and the unattractive location of this S type outlet in Poznań at 104 Kosmonautów estate, the Bank decided to wind down its operations there, with the customer/client services transferred to the other branches in Poznań; and
- opening of new agency outlets (partner outlets operating under the CitiFinancial logo) in: Kołobrzeg at 7D/13 Zaplecza street; Malbork at 27 M. Konopnickiej street; Radomsko at 34 W. Reymonta street; Krotoszyn at 22 Zdanowska street; Turek at 1 Gorzelniana street; New Sól 2a Wyzwolenia Square; Wadowice at 30 Zatorska street; Żagań at 27 Rynek; and Bolesławiec at 6/4 Zgorzelecka street.

Number of branches at period end

	Q2 2009	Q1 2009*	Change
Number of outlets:	**237**	**243**	**(6)**
- L type	48	49	(1)
- M type	70	70	No change
- S type	84	92	(8)
- T type	35	32	+3
Other sales / customer service outlets:			
Mini-branches (within "Citibank at Work")	5	6	(1)
BP petrol station sales points	182	182	No change
Plus salon sales points	69	17	+52
Number of own ATMs	163	166	(3)

** Due to restructuring of the branch network, the available comparable data are limited to Q1 2009.*

5.2 Internet and Telephone Banking

The first half of 2009 was a period in which the Bank continued to develop and promote its Citibank Online internet platform. New platform functionalities were implemented for the benefit of the users. The functionality supporting activation unique codes for electronic banking transactions was expanded. Together with the expansion, a new functionality supporting execution of one-off bank transfers was added, which now no longer requires addition of the recipient to a standing list. The other new functionalities include a facility for recharging pre-paid mobile service via the transaction platform, or the facility for settlement of e-trade purchases directly from personal account, with support of the *Płacę z CitiHandlowy* functionality. Moreover, the log-in screen was redesigned (clearer layout and more intuitive location of 'help' links) and all transactions with future date, as the customer sets them up on any of their accounts, are now gathered in a single location; for the user's convenience.

The first half of 2009 brought about 41% raise in the number of registered users of Citibank Online internet banking service compared to the end of 2008: total of above 487,000 users.

In the first half of 2009 the Bank also continued promoting the Online Account Statements service (statements in the electronic form). It organised family oriented environmental consciousness raising picnics for its customers and employees. The picnickers were, among others, given opportunities for planting trees in areas managed by the state forestry service. At the end of the first half of 2009 the number of registered users of the Online Account Statements service exceeded 403,000, a 28% growth compared to the 2008 year-end.

Internet banking continues to gain in importance as the Bank's distribution channel. At present the Internet is used for acquisition of three key product groups: credit cards, cash loans, and personal accounts for individuals and SMEs.

5.3 Direct and indirect acquisition

Citibank at Work (CBAW), the Bank's direct and indirect sales office has been deeply reorganised in the first half of 2009. This involved a series of organisational and operational changes aimed at increasing effectiveness of this acquisition channel. As a result of these the CBAW relationship managers acquired for the Bank over 3,000 new customers and clients and sold to them over 6,000 products.

In contrast with equivalent period in 2008, in the first half of 2009 CBAW sales were mainly driven by deposit accounts and represented around 70% of all the products sold.

The factors that have contributed in an important way to the improved effectiveness of the CBAW sales process include, among others, a new formula of meetings with customers, which involves a combination of sales presentation and a seminar on household budget management, safe saving and on the use of credit products.

In the first half of 2009 CBAW also expanded its activities to include cooperation with the commercial bank business, specifically in serving of the SME segment. As a result of this initiative the CBAW now also offers the corporate accounts product, which it has effectively marketed to small companies and sole proprietors. To date CBAW has acquired over 200 corporate clients.

In mid-March 2009 the Bank launched an innovative credit card sales channel, and is the first bank in Poland to offer credit cards through mobile operator outlets. New contracts signed with Polkomtel's key distribution partners in the final week of June 2009 expanded this network from 19 to 68 Plus outlets. The project has been gaining interest of the mobile outlet staff, who are ever more effective in selling this new product to their customers. This is borne out by the steadily growing number of card holders acquired through that channel.

The Bank continues to direct its sales primarily through direct sales agencies. Sale of cards is now combined with marketing of insurance products.

6. Developments in IT

IT projects are undertaken with the aim of optimising processes while ensuring data security and continuity, and implementing new solutions reflecting technological standards, product needs and changing regulatory requirements.

In the first half of 2009 the Bank continued actions aimed at consolidation and standardisation of its processes and technical infrastructure as well as at integration of the technological units of the Bank's corporate and retail divisions. These actions led to reduction of IT costs.

Implementation of all of these technological projects was consistent with the priorities set out within the Bank's business strategy.

Solutions introduced in the first half of 2009 supportive of modern product offer rollout, quality improvements and competitiveness of the product offer, and delivering cost savings:

- automation of submission of FX transactions achieved through linking of the e-Dealer system with the Systematics system;
- implementation of solutions enabling issuance of microchip credit cards;
- implementation of a system which facilitates tracking and prevention of transactions performed with stolen debit cards;
- introduction of a facility for immediate credit application review and issuance of microchip cards;
- enabling settlement of transactions in electronic banking for retail customers in the SEPA standard;
- implementation of automated verification of bank transfers booked by the Bank's main transaction system (FlexCube) against the watch list of entities under international economic and trade sanctions, which will increase efficiency of transaction processing;
- replacement of firewalls;
- changes in the technology of international WAN connections for Poland; and
- upgrade of link with NDS yielding increased capacity.

Continuing modifications that can have a significant impact on the Bank's operations in the near term include:

- enabling issuance of microchip debit cards;
- mobile banking – enabling execution of payments via mobile handsets;
- substantial build-out of IT systems with the aim of increasing work efficiency of telephone sales and collection units;
- build out of a system for issuance of microchip protected debit and credit cards directly in the branches;
- implementation of a platform for institutional clients which will upgrade servicing of trade finance and documentary operation products;
- implementation of a system that will facilitate operational aspects of handling trade finance products;
- implementation of a Focus software application module which automates management of international transaction costs for corporate clients (as required by the Regional Clearing Centre in Olsztyn);
- launch of a new electronic banking system for corporate clients which will increase overall client satisfaction and improve the Bank's competitiveness in this area of banking services,
- replacement of a local RCS system (which mediates in exchange of data between the electronic banking systems and the Bank's general ledger system) with an RCX system, which is consistent with the strategy for technical modernisation and standardisation of the platforms and systems the Bank uses, and which will increase reliability and improve cost effectiveness of the applications used;
- launch of new module for processing bank transfers in the FlexCube system, in order to further automate processing of transactions on the side of the Regional Clearing Centre in Olsztyn;
- launch of an internet based communication channel with the Bank for the e-Orders system clients, which will permit expansion of the product offer, among others, the electronic signature;
- implementation of a BPM (Business Process Management) class system which will enable modelling of business processes and upgrade processing of the related electronic documents;
- implementation of the new ESDK system (electronic message distribution system) within the Custody Services Office serving messaging with NDS;
- continued active consolidation of the branch network; and
- implementation of the centralised HP Asset Center platform enabling cross-inventorying of IT resources (Desktop, Network, Techrooms) and optimisation of local Asset Management processes.

7. Equity investments

All capital investments of the Bank are classified as part of either the strategic or the divestment exposures portfolios. In the first half of 2009 the Group continued its previously chosen capital investment policy. In managing the strategic portfolio it sough to: maximise profits in the long term; increase the market share; stimulate development of co-operation with the Bank; and to expand the Group's offer. In managing its divestment portfolio the Bank aimed to: optimise financial result on the transactions and minimise the risk inherent in such transactions.

7.1 Strategic portfolio

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

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

7.2 Divestment portfolio

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

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

8. Other information about the Group

8.1 Rating

The Bank has a full rating of Moody's Investors Service (Moody's), an international rating agency. The following rating changes occurred in the first half of 2009:

- On 20 January 2009 Moody's changed the rating outlook, previously stable, and placed it on the watch list, with a possibility of downgrading its ratings for the Bank's long term foreigne currencies and Polish złoty deposits, and the Bank's financial strength. The Bank's ratings, being the assessment of its long- and short term liabilities and of its financial strength, remain unchanged (A2, P-1 and C- respectively). The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 16 January 2009.

– On 3 March 2009 Moody's reduced its rating for the Bank's long term deposits in Polish złoty and foreign currencies from A2 to A3 and retained the rating on the watch list, with the possibility of a downgrade. The ratings of short term deposits were reduced from P-1 to P-2. These decisions did not impact the Bank's financial strength rating (BFSR), which remained at C- as it was retained on the watch list, with the possibility of a downgrade. The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 27 February 2009.
– On 18 June 2009 Moody's reduced its rating for the Bank's financial strength (BFSR) from C- to D+ with negative outlook. The rating for the Bank's deposits in Polish złoty and foreign currencies was reduced from A3 to Baa1 with negative outlook. The ratings of short term deposits remained unchanged (P-2). The change in ratings described here was a consequence of deterioration of the market environment, primarily impacting the retail and corporate portfolios. At the same time Moody's indicated that Bank's capital position as net lender remained stable and that its solvency ratio was among the highest of the banks rated by Moody's.

At the end of the first half of 2009 the Bank had the following ratings awarded by Moody's:

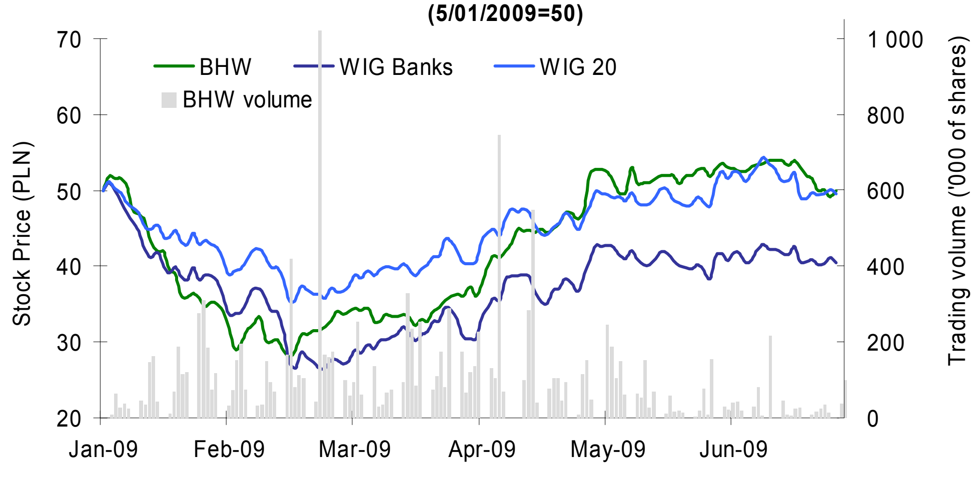
Rating for long term deposits in the domestic currency	Baa1
Rating for long term deposits in foreign currencies	Baa1
Rating for short term deposits in the domestic currency	Prime-2
Rating for short term deposits in foreign currencies	Prime-2
Financial condition *Financial strength rating outlook* *Long term deposits in the domestic currency rating outlook*	D+ *Negative* *Negative*

8.2 The Bank's Performance on the Warsaw Stock Exchange

At the end of the first half of 2009 (30 June 2009) the price of the Bank shares on WSE was the same as at the beginning of that year (5 January 2009), which was PLN 50.0.

Tracking closely the negative trend of the market, the share price went into decline from the second week of January until mid-February, and reached its lowest point of PLN 28 on 17 February 2009. From that time on the price recovered the lost ground rapidly, and on 30 April 2009 reached PLN 52.20 thereby exceeding the year opening price level. Between that time and the end of the period the share price stabilised in the range of PLN 49 and PLN 54.

BHW share price and trading volume against WIG-Banks and WIG20 market indices (5/01/2009=50)



As against the trading landscape of bank equities, these share price developments were outstanding (WIG-Banks lost 19.1% in the first half of 2009). The Bank's share price evolved slightly above WIG20, which was (0.8%).

8.3 Awards and honours

In the first half of 2009 Bank Handlowy w Warszawie S.A. and the Leopold Kronenberg Foundation received a number of prestigious honorary titles:

- The Bank's offer for the SME sector received the *Róża bez kolców* (Rose Without Thorns) award in a ranking prepared by the Economic Analysis Institute for the Home&Market monthly;
- The Pay By Mobile Phone service was recognised as the Innovation of the Year 2008 by the Mobile Internet monthly;
- The Bank received an award for the greatest innovation in the European retail banking sector. The coveted Innovation of the Year 2008 title awarded by the European Payments Consulting Association (EPCA) went to the Pay By Mobile Phone Straight from Your Account service;
- The Bank was awarded the Honorary Mention and the emblem of the Entrepreneur Friendly Bank in the 10th edition of a competition organised by the Polish Chamber of Commerce and the Polish-American Small Enterprises Advisory Foundation;
- The Leopold Kronenberg Foundation was granted the Strong Image title for its strategic involvement in a DNA research project that led to identification of the remains of Nicolaus Copernicus. The Strong Image title is awarded at the annual Public Relations Congress to entities that actively support promotion of charitable causes and social responsibility projects.

8.4 Engagement in cultural patronage and social responsibility projects

The Bank has pursued its mission of social responsibility via the Leopold Kronenberg Foundation, a charitable institution which supports various public benefit activities on the Bank's behalf. In the first half of 2009 the Foundation focused its efforts on such areas of interest as: economic education and promotion of entrepreneurship, and initiation and coordination of the Bank's employee volunteer projects addressed to the socially disadvantaged as well as those aiming at preservation of cultural heritage.

Descriptions of the programs pursued in the period follow.

From a Grosz to a Złoty (*Od grosika do złotówki*) – the first Polish financial education programme for pupils of primary schools executed in the context of integrated learning in collaboration with the Foundation of Entrepreneurship of Young People. It is being run jointly by teachers and volunteers from the Bank with collaboration of the parents. The programme is intended to help children develop habits of saving money, developing their awareness of the value of work, learning what money can be used for and preparing children for the task of rational shopping decisions. The program is comprised of two parts: the second form primary school children are involved in a week-long educational module, which takes the form of a journey through the Finance Galaxy, while the third form primary school children are involved in a day-long workshop devoted to the topic of saving, which is entitled Grosz Journeys. In May 2009 the program activities included two school art competitions, with saving and operation of a bank as their themes; over 700 pupils participated.

My Finances (*Moje Finanse*) – the largest Polish economic education programme addressed to pupils of higher secondary level schools conducted in cooperation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People. Since November 2007 the programme commenced its second edition, with the educational curriculum expanded to also include the parents. In the first half of 2009 the program activities encompassed training for volunteers recruited in the Bank and students on the rules of running the Becoming an Investor game, one of the topical modules. By the end of May the students organised 56 runs of the game in various schools, with over 1,100 pupils participating. Material for a new module was also prepared; entitled Protection of the Consumer in the World of Financial Services.

Banks in Action (*Banki w Akcji*) – an economic education program addressed to higher secondary school students interested in a financial sector career. The program aims to promote among this student group knowledge of the principles of functioning of financial markets, and particularly of commercial banks. Implemented by the Leopold Kronenberg Foundation and the Foundation of Entrepreneurship of Young People, the program proceeded with two modules in the first half of 2009:

- **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 nationwide Enterprise Day programme. In 2009 the Enterprise Day was held on 2 April on which the Bank received 257 student trainees;
- **The Banks in Action Competition** – organised with the National Bank of Poland, the Foundation of Entrepreneurship of Young People and a group of eight university schools of banking. The 'Olympic' competition fits within a larger framework of subject 'Olympiads' authorised by the Polish Ministry of National Education and addressed to students of upper secondary schools seriously interested in economy. In the first half of 2009 the program organisers proceed with development of the 2nd edition of the 'Olympic' competition, with the general theme of capital market and its products. Respective stages of the competition will take place in October, November and December 2009.

Innovation in Banking – a nationwide competition announced by the Leopold Kronenberg Foundation and the Bank and addressed to second- to fifth-year university students at large. The initiative aims to inspire the young people to develop innovative business solutions. It seeks to tap into the knowledge and creativity of young people, and to strengthen their confidence in the possibilities for personal career development. The main prize of PLN 10,000 and a 3-month internship with the Bank went to Paweł Tatomir of the Warsaw University. In the course of his internship he will work on implementation of his winning ideas. Additionally, five honourable mentions were awarded with prizes of PLN 2,000 each.

ZrozumFinanse.pl – the Bank's educational portal launched in November 2007 was to date visited by over 600,000 users. Its innovative segmentation allocates users into three groups: Singles, Couples and Families. Website content that has enjoyed unabating popularity is the Strategic Game, a financial management simulation game. The player's task over the game's 30 rounds (each symbolising one month in their life) is to manage their personal finances in such a way as to maximise their financial resources by the game's end, this including: cash, savings (deposits, investment trust funds), personal property (e.g. a vehicle) and real property (e.g. a flat), and relevant financial security instruments (pension fund, life insurance policy). To facilitate navigation and access to its content, the portal has been structured into respective sections, in which content is grouped thematically. The visitor is provided with the choice of the following: Step By Step, Financial World, What Do You Do When, Know the Consequences, Topic of the Day and Glossary. The varied selection of multimedia solutions includes presentations, films and a survey presenting the practical aspects of respective banking products.

Micro-entrepreneur of the Year 2009 – a unique competition addressed to owners-operators of small businesses. Through organisation of the event the Foundation seeks to promote active stance toward entrepreneurship, stimulate establishment of small businesses and to present the best of them as effective business models. The prestigious Micro-entrepreneur of the Year 2009 title went to Nexwell Engineering of Wrocław established by Michał Kowalczyk. The winning firm is a designer and producer of modern home automation systems. Its leading product is the NEXO system, which provides a flexible and easy to use control platform for various elements of the typical home infrastructure. The title winner was granted the prize of PLN 30,000. The award ceremony was preceded by presentation of results of a survey study entitled Barriers to Development of Micro-business in Poland, which was executed by the Leopold Kronenberg Foundation in substantive collaboration with the Microfinance Centre. The study was carried out on a sample of 500 micro-businesses by Pentor Research International. The award ceremony of the 5th edition of the competition was held on 25 June on the New Connect floor of WSE. The assembly was hosted by Michał H. Mrożek, Vice President of the Management Board of the Bank and Iwona Jaworska, President of the Management Board of Leopold Kronenberg Foundation.

Professor Aleksander Gieysztor Award – most prestigious award granted for activity aimed at preservation of the Polish cultural heritage. It is granted annually to institutions and individuals, among others, for:

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

This year's jubilee 10th edition Gieysztor Award went to professor Jan K. Ostrowski for his work documenting monuments of sacred art in the lands which formerly formed part of the Republic of Poland and presently remain outside its boarders. The research program the Laureate has pursued has the objective of taking stock of the monuments of sacred art in these regions, including the objects destroyed or scattered in the aftermath of the Second World War. In the years 1993-2008 professor Ostrowski redacted and published the 16-volume Materials on the History of Sacred Art. This opus includes 436 descriptions of historical monuments prepared by 30 authors. The publication encompasses total of 6,235 printed pages and 8,579 illustrations. The award was delivered on 18 February 2009 at a gala held at the Royal Castle in Warsaw.

Employee Volunteer Program – a program that aims to assist the Bank employees in developing their social responsibility and involvement. Its main pillars include employee engagement in: dissemination of financial education; Citi's Global Community Day; and innovative voluntary work projects executed in the course of corporate integration trips. Additionally, the Bank employees can: choose from among numerous individual voluntary work offers; take part in construction of homes for underprivileged families together with the Habitat for Humanity foundation; get involved in the Become Santa's Assistant campaign or the Enchanted Songs Festival, which supports persons with disabilities. The employees provide their service on individual or organised group basis. In the first half of 2009 over 780 Bank volunteers from around Poland were involved in 11 different projects.

More Trees Thanks to You – a program implemented by the Bank together with the Leopold Kronenberg Foundation and Our Earth Foundation. Within it the Bank would plant a tree on behalf of each customer who decided to move to electronic bank statements. The program proceeded with its 2nd edition in spring 2009. 138,000 trees were planted in the Mazowieckie, Warmińsko-Mazurskie, Pomorskie and Małopolskie provinces (*voivodships*). The tree planting campaign involved selected schools of the Małopolskie Voivodship and over 700 customers and employees of the Bank, including the President and Members of the Bank Management Board. Aforestation was carried out under the supervision and in keeping with a plan adopted by the State Forests. On 25 April 2009 during the Earth Day, the grand tree planting finale was held in conjunction with family ecological picnics in the environs of Warsaw, Gdańsk and Olsztyn. In the course of the two editions of the More Trees Thanks to You held to date over 178,000 trees were planted.

Subsidies Programme – a grant competition through which the Leopold Kronenberg Foundation supports the most valuable projects implemented by non-profit institutions operating in the spheres of education and local development.

In the first half of 2009 the Foundation granted two subsidies toward local initiatives and two other subsidies toward supra-local projects. By 25 June 2009 the Management Board of the Foundation awarded 38 separate grants totalling PLN 627,892, including PLN 222,192 toward local projects with recommendations of the Bank branch managers. The following funds were granted toward respective program areas:

Programs	Grant amount (PLN)
EDUCATION	
Educational innovation	54,218
Cultural heritage and traditions	189,070
Economic education	101,450
Creative expression of children and young people	130,204
LOCAL DEVELOPMENT	
Social policy	145,950
Enterprise education	7,000

The grants went, among others, towards: a project addressing the issue of vocational redeployment of middle-aged persons referred to as 50+ Counting on Entrepreneurship organised by the Leonardo Social Development Support Foundation; a training course for outstanding students of economy referred to as the Academy of Capital Market Leaders organised by the Lesław A. Paga Foundation; the prizes in the Jan, Edward and Józefiny Reszkowie Vocal Competition organised by the Częstochowa Philharmonic; or preparation and publication of an information leaflet for parents of small children with the Down's syndrome within the With You In Mind project implemented by THE MORE LOVED – Association of Families and Care Givers of Persons with the Down's Syndrome.

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

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

1.1 *Economy*

According to the macroeconomic forecast prepared by the Bank, growth of Poland's GDP may slow down to around 0% in 2009 compared to 4.9% in 2008. The main factor likely to contribute to the downturn in the country's GDP growth is a slump in domestic demand, including capital expenditures and individual consumption. The weakened domestic demand can be partially set off by improvement in the country's trade balance driven by deep decline of imports.

The rising unemployment and decline in employment create the risk of a pronounced deceleration in growth or contraction of disposable household incomes. The accompanying deterioration of corporate earnings can adversely impact the ability of bank's customers to service their financial obligations on a regular basis. At the same time, uncertainty as to the direction of Poland's fiscal policy in 2010 can lead to heightened volatility on financial markets.

1.2 *Regulatory risk*

Any changes in economic policy and the legal system may significantly affect the financial situation of the Bank. Of particular relevance here is the regulation of the banking sector, which takes the form of acts and their executive legislation including: regulations issued by the Finance Minister, resolutions of the Management Board of the National Bank of Poland (NBP), orders issued by the President of NBP and resolutions of the Polish Financial Supervision Authority (PFSA). As of 1 January 2008 the competences until then vested with the Commission for Banking Supervision (KNB) were conferred on PFSA.

The most relevant of these regulations cover:

- acceptable concentration of loans and total receivables (Banking Law Act);

- maximum limit of equity that may be invested in the capital market (Banking Law Act);
- solvency and credit risk standards (resolutions of KNB/PFSA);
- risk management in a bank (Banking Law Act and resolutions of KNB/PFSA);
- mandatory reserves, establishment and transfer (NBP Act, Banking Law Act, resolutions of KNB//PFSA and resolutions of the NBP Management Board);
- taxes and similar charges;
- Act Amending the Civil Code Act and Certain Other Acts of 7 July 2005 limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans;
- restrictions in granting mortgage-secured foreign currency loans arising from Recommendation S of the Commission for Banking Supervision;
- Competition and Consumer Protection Act of 16 February 2007;
- Countering Unfair Market Practices Act of 23 August 2007;
- Countering Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources and Counteracting the Financing of Terrorism Act of 16 November 2000;
- Consumer Credit Act of 29 July 2001.

Also, because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2007 the Commission Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID Directive) and its executive legislation, such as the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006), the process of adjustment of the institutions the MiFID Directive applies to (investment firms and lending institutions conducting investing activities) has not been conducted in compliance with the provisions specified by the European Union. Legislative process continued in the year 2008 with the aim of achieving transposition of the European on to the national regulations, and in particular to the Trading in Financial Instruments Act and the ordinances issued by the Minister of Finance on the basis of the act. However, the MiFID implementation process remained unfinished in the first half of 2009 as the President of the Republic of Poland referred to the Constitutional Tribunal a motion for examining the constitutionality of the act implementing the MiFID Directive. The above-mentioned legislative changes apply directly also to operations of Dom Maklerski Banku Handlowego S.A., the Bank's subsidiary.

1.3 Competition within the banking sector

Following a period characterised by rapid improvements in financial results, which encompassed the years 2003-2008, Polish banking sector has entered a phase of economic downturn. Any improvement of earnings or even retention of the results at levels achieved in the past will be an extremely difficult task.

In the coming months the priority task for the bank operating in the Polish market will be that of securing for themselves stable sources of funding, which can enable them to maintain their lending operations at adequate levels. The general mistrust between the domestic financial institutions, which expresses itself in the stagnation prevailing in the interbank market, has led to significant decline of liquidity in the sector. The protracted fierce competition for customer deposits can have an adverse effect on achievable margins.

1.4 Macroeconomic environment

The continuing global economic downturn, which Polish economy has not remained immune to, represents one of the most significant risk factors for the Group. In spite of the fact that Poland is a country that has been affected by the global recession to a relatively small extent, the crisis reality nonetheless impacts the business conditions in powerful ways. The expected decline in GDP growth is an effect of the deteriorating condition of Polish enterprises, which in turn can adversely affect the Bank's financial results; through the projected increase in impairment losses. Another risk factor which can lead to impairment loss increase are the negative valuations of some derivative instruments; as caused by substantial depreciation of the złoty.

Aware of these risk factors occurring in its operational environment, the Bank is, nonetheless, well prepared to compete under these demanding conditions, has a strong capital base and is perceived in the Polish market as a stable and trustworthy banking institution. It is, however, likely that the mounting banking sector competition and the economic downturn can adversely affect the Bank's earnings.

2. Major risk factors and threats connected with the Group and its operations

2.1 Liquidity risk

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

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

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

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

2.2 Foreign exchange risk

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

2.3 Interest rate risk

Along with the other Polish banks, the Bank is exposed to a risk arising from mismatch in timing of changes in interest rates on its assets and the underlying liabilities. Interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. The management of interest rate risk is one of the functions of the Bank's Asset and Liability Committee, which, among others, determines the Bank's pricing policy in the context of interest rate risk. In the first half of 2009 the level of interest rate risk ranged between moderate and high.

2.4 Credit risk

Credit risk represents the potential loss resulting from the borrower's inability to settle their contractual obligations due to insolvency or other reasons, after collateral, unreal debt payment protection and other loss control provisions. The Bank monitors its risk assets on an ongoing basis as it classifies and establishes impairment losses against them in accordance with the relevant regulations. The Bank Management Board is of the opinion that the current level of impairment losses is appropriate. As the possibility of change in the external environment that can adversely affect the financial condition of the Bank's customers always exists, there is no certainty that some future need for adequate provisioning against the existing asset portfolio will not have an adverse effect on the Bank's financial condition or that the provisions and the collateral in place will prove sufficient to absorb the possible losses arising out of lending activity.

2.5 Equity investment risk

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

2.6 Operating risk

The Group defines operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operating risk includes the risk relating to business practices and legal risk, in other words, the risk of non-compliance with the effective regulations of law and internal regulations of the Group. Operating risk does not include the reputational risk, the strategic risk or the risk of potential losses arising from decisions relating to undertaking the credit risk, the market risk or the insurance risk.

The principals and approaches to operating risk management in the Bank (including its identification, measurement, minimization, control, monitoring and reporting) are regulated by the Rules of Prudential and Stable Management of Risk in the Capital Group of Bank Handlowy w Warszawie S.A.", a document adopted and approved by the Bank Management Board and its Supervisory Board respectively.

The Bank's approach to operating risk is described in the Policy for the Operating Risk Management and the Self-assessment Procedure. The objective of this policy is to provide for a consistent and effective process of identification, control, assessment, monitoring, measurement and reporting of operating risk as well as for general effectiveness of the internal audit environment throughout the Bank. Each of the main business segments and every entity of the Group must have its operating risk management process in place that is consistent with requirements of the policy. The risk self-assessment procedure (RCSA) is used for assessment whether the control environment operates effectively. Operating risk reports – presented regularly to appropriate Committees – include data required for monitoring of the Bank's operating risk profile, such as internal and external audit results, self-assessment results (RCSA), key operating risks and risk indicators (KRIs), operating losses, information and problems relating to business continuity plans data security and capital requirements. Synthetic information on the operating risk profile are passed on to respective Bank Supervisory Board Committees. The family of operating risks (including the technological, legal, non-compliance, reputational and other risks) is managed through an effective control environment, because the appetite for residual operating risk is very limited.

The operating risk management process in the Bank is organised in pursuance of the following principles and rules:

- the senior management of the Bank are responsible for management of operating risk in pursuance of the Policy for the Operating Risk Management;
- management of operating risk is based on the following six key elements:
  - risk identification;
  - risk limitation;

  - risk self-assessment (RCSA);
  - risk monitoring;
  - risk measurement; and
  - reporting of the areas exposed to operating risk;
- the processes of risk identification, self-assessment and reporting, in all principal aspects, are uniform and generally adopted by all of the Bank's organisational units;
- the processes of limiting, monitoring and measurement of risk are set for each and every organisational unit and can differ across those units;
- the processes of calculation and reporting of the regulatory capital requirement on account of operating risk and the statutory reporting are regulated by an order entitled Procedure for Calculation of the Capital Requirement on Account of Operating Risk in Accordance With the Standard Method and Reporting Data on Operating Risk.

The role of the Bank Supervisory Board and the Management Board in exercise of oversight in the operating risk area:

- Supervisory Board
  - the Supervisory Board approves the Bank's operational strategy and the rules of prudential and stable risk management in the Group, which the Management Board prepares, as it takes into account occurrence of the operating risk arising in the course of the Bank's activity, and particularly the general rules of the operating risk management;
  - on the basis of synthetic reports submitted by the Management Board, which define the scale and the types of operating risk the Bank is exposed to, the probability of its occurrence, its consequences and methods of its management as well as the operating risk profile, the Supervisory Board performs periodic assessments of implementation of the assumptions of the strategy by the Management Board;
  - the Supervisory Board exercises oversight over the control of the operating risk management system and assesses its adequacy and effectiveness.
- Management Board
  - the Management Board is responsible for development and implementation of the risk management strategy, and within that for organisation and effective functioning of operating risk management process. Management Board sets the policy and the rules and procedures of operating risk management including the entire scope of the Bank's operations. With support of the relevant appointed Committees, the Bank Management Board adopts decisions relating to capital planning and monitoring of capital adequacy and to the adjustments necessary for the purpose of upgrading the systems and processes, in the case of material changes in the level of risk in the Bank's activity, in external economic factors or at identification of substantial irregularities;
  - the Management Board is responsible for the establishment of and changes to the Bank's organisational structures with the aim of adjusting them to the strategy, the profile of risk and the market and the regulatory environment;
  - the Management Board is responsible for preparation and presentation to the Supervisory Board of synthetic reports on operating risk;
  - the Management Board provides for disclosure to the market environment of information enabling assessment of the Bank's approach to operating risk management.

Pursuant to legal regulations, the Bank can entrust external entities with performance on behalf and for the benefit of the Bank of intermediation in banking activities on the basis of an agency agreement and of actual activities relating to banking operations (outsourcing). All decisions to entrust the activities relating to banking activity are in the sole discretion of the Bank Management Board. The use of external entities' services enables access to a greater number of customers and clients with information on the services and products the Bank offers, and provides access to new technological solutions. The Bank intends to use the possibility of entrusting activities relating to banking activity, particularly in the fields of information technology, and in cases where such entrustment is justified by business needs and at the same time does not endanger secure operation of the Bank. As outsourcing delivers not only benefits, but also increased risk, which the Bank can be exposed to in its operations, the Bank undertakes actions aimed at limiting that type of risk, particularly through ensuring: compliance with legal and its internal regulations, effective system of internal control, monitoring of co-operation with external entities, security of processed information and of privileged banking information.

The Bank oversees and manages the risk of non-compliance, which is defined as the consequences of failure to comply with: regulations of law, including international regulations or legal regulations of another country, that impact the Bank's operations, internal regulations and the standards of conduct adopted by the Bank. The rules of supervision and of the process of management of the risk of non-compliance in the Bank are defined in the Policy of Compliance and of Management of the Risk of Non-compliance in Bank Handlowy w Warszawie S.A., as approved by the Management Board and the Supervisory Board. Consistency of activity with regulations of law, internal regulations, corporate regulations, ethical standards and best practice standards is an integral part of the official duties of each of the Bank's employees. The Management Board is responsible for effective management of the non-compliance risk, development of the compliance policy and for ensuring its observance, and will undertake remedial or disciplinary action at identification of irregularities in observance of the compliance policy. The organisational unit which supports the Management Board, the Bank's organisational units with its actions and supervises the subsidiaries in the capacity of ensuring compliance of the Bank's operations with the valid regulations of law, the internal normative acts, the regulations and rules applicable in Citigroup is the Compliance Monitoring Department. The function of compliance monitoring (Compliance) exercised by the Compliance Monitoring Department is an independent function that includes identification, assessment, monitoring, testing, reporting and advisory in assessment of non-compliance risk and ensuring of compliance with regulations of law, the Bank's internal regulations, rules of conduct and best practice standards. As the organisational unit that coordinates and monitors the process of assuring compliance in the Bank, the Compliance Monitoring Department performs annual reviews and assessments of the process of management of the non-compliance risk, this in the process of implementation of the Annual Compliance Assurance Plan, and presents relevant information to the Management Board and the Supervisory Board of the Bank.

As concerns the HR risk, the Bank monitors the indicators and the causes of HR rotation, opinions of the employees and the staff remuneration and benefits market. The Talent Inventory Review conducted on annual basis constitutes an important part of the Bank's HR policy. The process enables identification of persons critical to respective processes together with their potential replacements, who are being prepared to take over relevant key positions through a cycle of training and development programs. By running of this process, the Bank is able to ensure continuity of staffing of the key positions.

On the basis of international standards of limiting exposure to operating risk, the Bank prepares its process continuity plans, also referred to as CoB (Continuity of Business). In confirmation of quality of these, the Bank is a holder of a UKAS accredited certificate of compliance with the BS 25 999 standard.

In order to reduce its exposure to operating risks, the Bank takes holds a corporate insurance program. The program provides coverage in case of events exceeding a specified reduction franchise. Any losses over and below this value are covered by the Bank.

The responsibility of organisation and effective functioning of the operating risk management process in subsidiaries rests with the Managements of those entities. The Managements of these companies provide for relevant organisational structures and for implementation of procedures and processes adequate to the operating risk these companies undertake. The Supervisory Boards of these companies exercise oversight over the respective operating risk management systems and assess their efficacy and adequacy. Uniformity of approach to the standards of the Operating Risk Management Policy and the Self-assessment Procedure is provided for by appropriate control units especially formed for the purpose in the companies, with support of the Bank's risk management units. Effectiveness of operating risk management in the subsidiaries and the Bank is audited and assessed in accordance with the same standards. Under consolidated supervision, data on operating risk of the Bank and its subsidiaries are presented to Commissions and Committees that support the Management Board and the Supervisory Board of the Bank in the process of operating risk management.

2.7 Contributions to the Bank Guarantee Fund

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

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

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

1. The Group's General Development Objectives

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

Our objective is to maintain the Bank as a liquid, well capitalised banking institution with a selective approach to business as well as customers and clients, and with prudential approach to risk, all with the aim of achieving optimal financial results in the period of economic slowdown. The Bank intends to continue active acquisition of new customers, both consumer and corporate, with a particular emphasis on middle income customers and SMEs. The Bank perceives customer satisfaction as key to effective customer acquisition and intends to undertake a number of initiatives aimed at increasing it

Over the period of economic slowdown, the Bank will offer products adjusted to the needs of its customers and clients, and will undertake actions aimed at ensuring its financial stability and trust of its customers and clients. The Bank puts great emphasis on cost discipline, which is particularly significant for achievement of robust results in the face of the expected slowdown in the Polish economy.

1.1 Commercial Bank

As a leader in corporate banking in Poland, the Bank addresses a rich and continually tailored and readjusted offer to all companies, irrespective of the market segment in which they operate, with the exception of those that belong to the sectors permanently excluded from the Bank's target markets due to the Bank's policy or of those that were blacklisted, a consequence of them being sanctioned by either international organizations or the U.S. government.

The Bank's market share in corporate loans stood at 2.6% at the end of the first half of 2009 compared to 3.8% in the equivalent period of 2008, while in corporate deposits its market share was respectively 7.4% and 8.2%. The market share of DMBH measured by volume of equity trading on WSE in the first half of 2009 rose to 12.7% YOY, which gives DMBH the position of leadership in the market.

Solid results in acquisition of new clients, both through the branch network and bank relationship managers, permit positive assessment of changes in the product offer and the service model implemented in 2008. In the microenterprise segment the Bank launched the Capital White package, which offers waver of the monthly fee for the package in exchange for active use of non-cash payments with a debit card. In a similar way, the larger SME segment clients were offered the option of reducing their monthly fee in exchange for maintaining sufficient balances on their current accounts. Both of these developments result from the Bank's strategy of consistently promoting the clients who actively collaborate with it. The Bank plans implementation of more such solutions with the aim of tailoring its offer to the needs of its clients.

The Bank continues its expansion into the small and medium enterprise segment (SMEs), as it focuses on quality of its loan portfolio and appropriate resource allocation. The Bank intends to continue acquiring new clients on this market and to deepen the relationships with its existing clients there.

The Bank plans to acquire clients by expanding its collaboration with the public sector and by making available to corporates innovative product solutions on the deposit offer side and in foreign exchange products. The Bank aims to achieve the position of the market leader in innovation offering the highest quality products and services. The Bank will seek to strengthen relations with its corporate clients and to reward their loyalty.

Substantial part of the Bank's revenue will come from trade finance, financial asset management and Treasury Division products, in significant portion from foreign exchange operations. The innovative products of highest quality will be one of the key determinants of the Bank's competitive advantage, particularly in its cooperation with the most demanding international and leading Polish companies. The Bank's aim is to gain a position among the top three banks in terms of revenue from banking activity in the corporate banking segment.

1.2 Brokerage

Development of securities brokerage business is to a great extent dependent on and will continue to be dependent on the trading cycles of the Polish capital market. Because of the continuing global financial crisis and the clear signs of a downturn in the Polish economy, the outlook for the years 2009-2010 is unfortunately not a very promising one. In the first half of 2009 we witnessed substantial decline in the daily trades on WSE compared to the years 2007-2008 and it is rather unlikely that any significant improvement will occur over the next 12 months. Corporates remain the dominant client group of DMBH and in spite of it developing the retail segment no significant changes in that respect should be expected in the year 2009.

DMBH aims to increase its market share in the retail segment through close cooperation with the Consumer Bank and thus provide for cost effectiveness of this expansion.

In the second half of 2009, along with the recovery of the Polish capital market, we expect the primary market activity to increase. Successful execution of the transactions planned by DMBH for the second half of 2009 will have a positive impact on revenue from the brokerage business.

1.3 Consumer Bank

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

The Bank's product offer is responsive to needs of customers representing various segments of the retail banking market. By developing comprehensive product offers tailored to their financial needs, it seeks to further strengthen relationships with its customers.

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

In the second half of 2009 the Bank intends to concentrate on acquisition and retention of active customers, for whom the Bank is the bank of their first choice, to which they transfer their pay and in which they wish to save. In July 2009 the Bank introduced a new table of fees and commissions, which provides the active customers account maintenance fee discounts or wavers. The Bank will continue to pursue the strategy of offering certain privileges to customers; originated in the first half of 2009 by implementation of the Medical Package and the opportunity of collecting bonus points under the 5 Plus Program; for customers settling their Citibank-Plus Credit Card out of their account with the Bank. At the time of low interbank market liquidity, the Bank will concentrate on growing the deposit balances available to it: customers will be incentivised to save with the Bank through attractive interest rate proposals for their savings accounts and deposits.

The Bank possesses broad offer of investment and insurance products. The Bank offers carefully selected highest quality products of prestigious financial institutions and enhances its offer with new services as it takes into account the changing needs of its customers, which include guaranteed capital products. The Bank has also developed a competitive offer of structured products. In these times of pressure in the capital markets, the Bank pays great attention to educating customers in the principles of systematic saving strategy.

The Bank intends to retain its position of leadership on the highly competitive credit cards market. With that purpose in view, in the year 2009 it concentrates on developing its portfolio of co-branded cards, thus offering customers additional benefits. It has diversified its distribution channels by launching credit card sales through the outlets of Polkomtel, a mobile telephony operator. In Many 2009 the Bank added microchip cards to its offer. It also plan to cut down further on the credit decision times.

1.4 Distribution network

In the course of the year 2009 the Bank will use its best endeavours in order to ensure appropriate level of customer service. It will, at the same time, respond to market developments as they occur. The plans include opening of 11 new partnership outlets: agencies. The Bank will also implement novel solutions aimed at streamlining and stepping up cash management services for the customers.

The priorities include increasing functionality and accessibility of remote distribution channels and further upgrading the qualifications of the Bank consultants, in particular those serving large entities that require more sophisticated financial products. In the case of the Consumer Bank substantial emphasis will be placed on further growth of the Internet usage (Citibank Online). As a target, the Internet is to become the basic transaction medium for private individuals.

2. Synergies

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

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

VIII. Corporate Governance

1. Good corporate practices and principles in the Bank

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

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

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

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

The Bank aspires to the position of the most respected financial services company in Poland, with a strong sense of business and social responsibility. Since 2003 the Bank has complied with the corporate governance rules adopted by WSE in the form of the Best Practices in Public Companies 2005 paper and since 1 January 2008 in the Best Practices in Companies Traded on WSE paper, except that in respect of the latter document the Bank's governing bodies admitted that three of the rules stated therein may not be applicable to the Company's practice. The main purposes for adoption of the corporate governance rules as the standard in the Bank include building transparent relationships between all the entities involved in operation of the Company and ensuring proper and diligent management of the Company and its business as well as diligent and fair treatment of all its shareholders.

The report on activities of the Bank and the report on activities of the Capital Group of the Bank in respect of the year 2008 in separate sections provide statements of the Bank Management Board on application of the principles and rules of corporate governance in the Bank in the year 2008. The statements include the information indicated in the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and the conditions for recognition as equivalent the information required by the law of a non-member state (Journal of Laws No. 33 item 259).

It should be stressed that the intention of ensuring transparency in operations of Bank Handlowy w Warszawie S.A., in particular in respect of the relations and the processes occurring between the statutory bodies of the Company, has culminated in adoption of good corporate practice rules in the Bank, which we discuss overleaf.

1.1 Investor Relations

The Bank's information policy, the aim of which is to provide information to all persons and institutions that need information about the Company, includes as its integral part the investor relations function, which provides information to current and potential investors and capital market analysts. The methods whereby the Bank delivers its information policy through the investor relations function include:

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

1.2 Transparency

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

- The Bank has published its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005;
- One half of the Bank Supervisory Board is composed of independent members, including the Chairman of the Board;
- Within the Bank Supervisory Board functions the Audit Committee composed of two independent members, including the independent Chairman of the Committee;
- Remuneration of all the Management Board members is commensurate with the company size and reflects the individuals' scope of duties and accountability;

- All significant internal regulations as well as information and documents relating to the Company General Meetings are available at the Company's headquarters and via its website.

1.3 Minority Shareholders Rights

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

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

2. Good corporate practices and principles 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 and thus are not under the obligation of complying with the Best Practices in Companies Traded on WSE or submitting statements in this respect. However, because of importance of the roles these entities perform in the Group, the following circumstances are here elucidated.

DMBH is member of the Polish Chamber of Securities Brokerage Houses and as its member it is required to comply with the Code of Best Practices in Brokerage Houses developed by the Chamber. The code does not regulate issues of corporate governance, but rather concentrates primarily on the rules of protection of professional secrecy, on relations with clients and customers, on conduct of brokerage house staff, including also relations with other brokerage houses. DMBH is an entity regulated under the Trading in Financial Instruments Act and by virtue of that in addition to provisions of the Commercial Companies Code it complies with certain elements of corporate governance; as arising from provisions of the law and its secondary executive regulations, among others, in compliance with article 103 of the above law management boards need to be composed of at least two persons with university educational qualifications, at least 3 years of professional experience of working in financial institutions and with good report on the functions they had performed to date. DMBH also informs PFSA of any changes in its management. Additionally, DMBH has reporting obligations vis-à-vis PFSA (including notification of changes in the Management Board and of the content of specified resolutions adopted by its general meeting). The Trading in Financial Instruments Act also regulates such issues as acquisition of shares in a brokerage house and provides that the head office of a brokerage house be located on the territory of Poland.

Handlowy Leasing Spółka z o.o. (HL) is a company operating in the leasing sector. The leasing sector companies have formed the Polish Leasing Association, which is currently drafting the code of best practices in leasing companies.

In its operations HL complies with provisions of the Commercial Companies Code. In the structure of its Supervisory Board, HL has an established supervisory body which exercises oversight over the company's operations, though that is not a requirement of the Commercial Companies Code.

3. Bank's Authorities

3.1 Changes in the composition of the Bank Management Board and the Bank Supervisory Board in the first half of 2009

3.1.1 Changes in the composition of the Bank Management Board in the first half of 2009

In the first half of 2009 no changes occurred in the composition of Bank Management Board. As at 30 June 2009 the Management Board was composed of the following members:

Sławomir S. Sikora	President of the Bank Management Board
Michał H. Mrożek	Vice-President of the Bank Management Board
Peter Rossiter	Vice-President of the Bank Management Board
Sonia Wędrychowicz-Horbatowska	Vice-President of the Bank Management Board
Witold Zieliński	Vice-President of the Bank Management Board

3.1.2 Changes in the composition of the Supervisory Board in the first half of 2009

As at 30 June 2009 the Supervisory Board was composed of the following members:

Stanisław Sołtysiński	Chairman of the Supervisory Board
Shirish Apte	Deputy Chairman of the Supervisory Board
Andrzej Olechowski	Deputy Chairman of the Supervisory Board
Susan Blaikie (aka Dean)	Member of the Supervisory Board
Igor Chalupec	Member of the Supervisory Board
Sanjeeb Chaudhuri	Member of the Supervisory Board
Goran Collert	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Aneta Polk (aka Popławska)	Member of the Supervisory Board
Michael Schlein	Member of the Supervisory Board
Stephen Simcock	Member of the Supervisory Board
Wiesław A. Smulski	Member of the Supervisory Board

- Ms. Sabine S. Hansen submitted her resignation from performance of the function of the Supervisory Board Member on 17 June 2009 and on that day her mandate expired;
- Mr. Krzysztof Opolski at completion of the term of office on the day of the Ordinary General Meeting (18.06.2009) was not reappointed; and
- On 18 June 2009 the Ordinary General Meeting appointed two new members of the Bank Supervisory Board: Igor Chalupec and Stephen Simcock.

3.2 Rules Relating to Appointments and Discharges of the Management Board Members

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

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

3.3 Powers of Management Board Members

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

1) formulates the Bank's strategy;
2) forms and dissolves committees and determines their powers and responsibilities;
3) determines the Management Board Rules and Regulations and submits them to the Supervisory Board for approval;
4) determines, and submits to the Supervisory Board for approval, regulations for management of special funds created from net income;
5) determines dividend payment dates, on the basis of limits voted by the General Meeting;
6) appoints commercial proxies, general authorised representatives and general authorised representatives entitled to substitution;
7) makes decisions concerning the matters defined in the Management Board Rules and Regulations;
8) settles the matters submitted to it for consideration by the President of the Bank's Management Board, Vice-President or a member of the Management Board;
9) makes independent decisions on the purchase and sale of real estate, perpetual usufruct or participations in real property;
10) adopts annual financial plans, investment plans and reports on their performance;
11) approves reports on operations and financial statements;
12) recommends the appropriation of profits or coverage of losses;
13) approves the HR and credit policy, and the legal principles of the Bank's operations;
14) approves the capital management policy;
15) approves the employment structure;
16) determines the basic organisational structure of the Bank, appoints and discharges heads of Sectors and Divisions, and defines their powers and responsibilities;
17) determines control plans for the Bank and approves audit and inspection reports;
18) decides on other matters that, according to the Articles of Association, require submission with the Supervisory Board or the General Meeting;
19) adopts decisions to incur liabilities or sell assets the total value of which with respect to one entity exceeds 5% of the Bank's shareholders' equity or grants authorisations to indicated persons to adopt such decisions, however decisions are made after the respective Committee is consulted with respect to the matters within the competencies of the Committees appointed within the Bank.

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

4. Other rules

4.1 Holders of securities with attached special control powers towards the Bank

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

4.2 Limitations related to the transfers of ownership title to the Bank's securities and limitations in the scope of voting rights connected with the Banks' shares

In addition to the limitations set forth by the Banking Law Act (Article 25), a person who takes up or acquires more than 10%, 20%, 25%, 33%, 50%, 66% or 75% of the Bank's total shares must obtain a permit from the Polish Financial Supervision Authority for exercise of their rights from shares at the General Meeting. A permit is also required to dispose of shares, if the holder exceeded the above limits previously. The Articles of Association impose no other restrictions on transfers of the Bank shares.

IX. Other information about the Bank's Authorities and rules of management

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

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

2. Agreements between the Bank and Members of the Management Board that provide for compensation in the event of their resignation or discharge without appropriate justification or in consequence of merger or takeover of the Bank

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

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

3. Rules of management

In the first half of 2009 there were not introduced any changes to the rules of management of the Bank, which rules are presented in a Note to the Financial Statements of the Bank.

All other information required under the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and the conditions for recognition as equivalent the information required by the law of a non-member state (Journal of Laws No. 33 item 259) are incorporated into the Financial Statements of the Bank.

Signatures of the Management Board Members

Date	Forename and surname	Position/Function	Signature
20.08.2009	Sławomir S. Sikora	President of the Management Board	
20.08.2009	Michał H. Mrożek	Vice-President of the Management Board	
20.08.2009	Peter Rossiter	Vice-President of the Management Board	
20.08.2009	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	
20.08.2009	Witold Zieliński	Vice-President of the Management Board	