REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN THE FIRST HALF OF 2012

AUGUST 2012

CONTENTS

I. Poland's Economy in the first half of 2012

1. Main macroeconomic trends

Monthly macroeconomic data imply further slowdown in economic growth in Q2 2012 from 3.5% YoY compared to 4.3% in the second half of the previous year and 4.3% YoY in the whole of 2011. In the first half of 2012 the industrial output grew on average by 3.9% YoY compared to 6.6% YoY in the second half of the previous year, and the decreasing PMI showed the increasing decline both in domestic and export orders. The pace of exports growth was on average 3.7% YoY in the period from January to May 2012, while imports increased by 2.9% YoY. In the corresponding period of 2011 these increases were 15.9% YoY and 17.5% YoY, respectively.

Weakening of industrial activity was accompanied by unfavorable labor market situation. The unemployment rate in February 2012 increased to 13.5%, i.e. the highest level since 2007, and although in the following months it fell to 12.4% at the end of June 2012, the rate is still close to the highest levels in 5 years. At the same time, the pace of employment growth in the enterprise sector slew down in the first half of 2012 to 0.4% YoY from 2.8% YoY in the second half of the previous year and to merely 0.1% YoY in June 2012. The pace of pay rises slew down to 4.6% YoY in the first half of 2012 from 5% in the second half of 2011. In the period from January to June 2012 there was a slight slowdown in retail sales growth, to 9.7% YoY from 10.6% YoY in the second half of 2011. In real terms, retail sales grew by approx. 5.7% YoY. The pace of consumption growth in Q1 2012 remained at the very low level of 2.1% YoY, and the deteriorating situation on the labor market will have a negative impact on consumption results in the subsequent quarters.

In the first half of 2012 the inflation rate fell slightly to 4.1% YoY from 4.3% YoY in the second half of 2011. The sharpest price increases were recorded for fuels and energy commodities. The persistence of inflation above the inflation target for a long time encouraged the Monetary Policy Council to increase the reference rate by 25 basis points up to 4.75% in May 2012. However, due to diverse statements of the members of the Council and the slowdown in economic growth, the market is expecting reduction in interest rates in the subsequent quarters.

2. Money and Forex markets

After a significant weakening of the zloty in the second half of 2011, the zloty considerably strengthened since the beginning of 2012. Considerable appreciation of zloty was noted as early as at the beginning of 2012. In April and May 2012, the zloty again lost value to the dollar and the euro, which was due – among other things – to risk aversion in the global markets, related to parliamentary elections in Greece, which turned out to be inconclusive regarding prospects for an agreement with international lenders. After the second elections in Greece, held in June 2012, the precarious situation became clear, which improved risk appetite. Lowering of interest rates by Bank of China and EBC as well as the financial support given to the Spanish banking sector by the eurozone also positively influenced the sentiment on global markets. As a result, the domestic currency appreciated in the last month of Q2 2012. High demand of foreign investors for Treasury bonds also contributed to the strengthening of the zloty. Yields on 5-year and 10-year bonds were the lowest since 2006. This resulted in the increase in the distance between rates and the peaks established during the last year. As at the end of June 2012, the EUR/PLN exchange rate was 4.26 compared to 4.46 as at the end of 2011, while the USD/PLN rate was 3.39 compared to 3.44 as at the end of the previous year.

In the first half of 2012, there was a significant decline in domestic Treasury bond yields. Yield was falling all along the curve from the beginning of the year to March 2012. In April and May 2012, yields at the short end of the curve rose due to the increase of the interest rates by the Monetary Policy Council as well as the situation in Greece and weakening of the zloty, while in June 2012 bond yields went down significantly. This was thanks to the yield decline on main markets, which encouraged investors to seek more profitable securities. Favorable situation on the debt market enabled meeting nearly 80% of the borrowing needs of the State at the end of June 2012, and the expected small supply of Treasury bonds in the second half of 2012 also contributed to the decrease in bond yield. As at the end of June 2012, yield on 2-year bonds fell to 4.70% from 4.85% as at the end of 2011, while yield on 10-year bonds went down by about 74 basis points to 5.14%. In that period, the 3M WIBOR increased to 5.13% from 4.99% as at the end of 2011.

3. Capital market

The positive image of the stock market in the first half of 2012 was outlined already in its first three months. At that time, the increase in global liquidity, which was due to implementation of the Long Term Refinancing Operation Program (LTRO) by the European Central Bank, significantly improved the sentiment. Subsequent months brought a downturn in financial markets, which resulted from the return of concerns pertaining the eurozone fate and the increased risk of economic slowdown in China. Weakening data on the domestic economy (aggravation of the labor market situation, low PMI readings) also were not favorable to WSE quotes of companies.

From the beginning of 2012, the companies with smallest capitalization recorded the highest increase, for which sWIG80 index rose by 12.0%. The growth rates for WIG20 and mWIG40 were slightly lower (+ 6.1% and +5.8%, respectively). In terms of sectors, chemical industry and primary sector companies deserve attention – they gained 38.8% and 25.9%, respectively. Escalation of problems in the construction industry in Q2 2012 caused a significant sale of companies from this sector and a drop in WIG-Construction sub-index by 34.5% compared to the quotes as at the end of 2011. On a yearly basis, almost all indices declined significantly - especially sWIG80 which was lower by over 21% YoY as at the end of June 2012. As for sub-indices, the construction and developers sectors decreased the most (-62.4% YoY and -46.7% YoY, respectively). WIG-Chemicals and WIG-Telecommunication stood out against other sub-indices – they were the only ones to reach a level higher than that in the corresponding period of 2011 (an increase by 11.9% and 2.3%, respectively).

Contrary to the first half of 2011, during the first six months of 2012 the primary market showed low activity. During this period shares of 10 companies debuted on the Warsaw Stock Exchange (WSE) (including one transferred from New Connect), the total value of which was nearly PLN 0.5 billion. At the same time shares of two entities were delisted.

At the end of the first half of 2012, shares of 434 companies were traded on the main market of the WSE. The total capitalization of all companies listed on the domestic stock market was nearly PLN 670 billion, and 71% of that value was represented by the companies based in Poland.

Warsaw Stock Exchange equity market as at 30 June 2012

Index	30.06.2012	Change (%)	31.12.2011	Change (%)	30.06.2011
WIG	40,810.88	8.6%	37,595.44	(15.7%)	48,414.36
WIG-PL	40,721.39	9.4%	37,217.06	(14.8%)	47,811.51
WIG-div	979.48	8.5%	903.09	(6.3%)	1,045.72
WIG20	2,275.30	6.1%	2,144.48	(18.8%)	2,802.01
mWIG40	2,300.09	5.8%	2,173.89	(19.3%)	2,850.55
sWIG80	9,520.17	12.0%	8,496.54	(21.2%)	12,085.98
Sector specific sub-indices					
WIG-Banks	6,021.14	11.1%	5,421.04	(11.5%)	6,801.48
WIG-Construction	1,602.22	(34.5%)	2,445.10	(62.4%)	4,258.96
WIG-Chemicals	8,491.31	38.8%	6,117.02	11.9%	7,588.77
WIG-Developers	1,236.74	(6.3%)	1,319.94	(46.7%)	2,322.16
WIG-Energy	3,612.05	(6.2%)	3,850.58	(17.6%)	4,385.79
WIG-IT	1,137.40	5.4%	1,079.26	(9.6%)	1,258.34
WIG-Media	2,424.63	(1.5%)	2,461.89	(28.4%)	3,385.52
WIG-Fuels	2,744.11	6.9%	2,567.58	(22.8%)	3,554.70
WIG-Food industry	3,284.71	(5.7%)	3,481.45	(24.9%)	4,373.05
WIG-Raw Materials	4,266.19	25.9%	3,388.75	(19.4%)	5,289.89
WIG-Telecommunication	1,429.83	1.9%	1,403.12	2.3%	1,397.38

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

Volumes of trade in shares, bonds and derivative instruments on WSE as at 30 June 2012

	1st half of 2012	Change (%) 1H12/2H11	2nd half of 2011	Change (%) YoY	1st half of 2011
Shares (PLN million)*	205,169	(20.6%)	258,505	(26.1%)	277,771
Bonds (PLN million)	1,171	30.4%	898	51.2%	774
Futures contracts (thousand units)	11,271	(28.7%)	15,813	(15.9%)	13,405
Option contracts (thousand units)	595	(23.6%)	779	(41.4%)	1,016

** excluding calls*
Source: GPW, DMBH

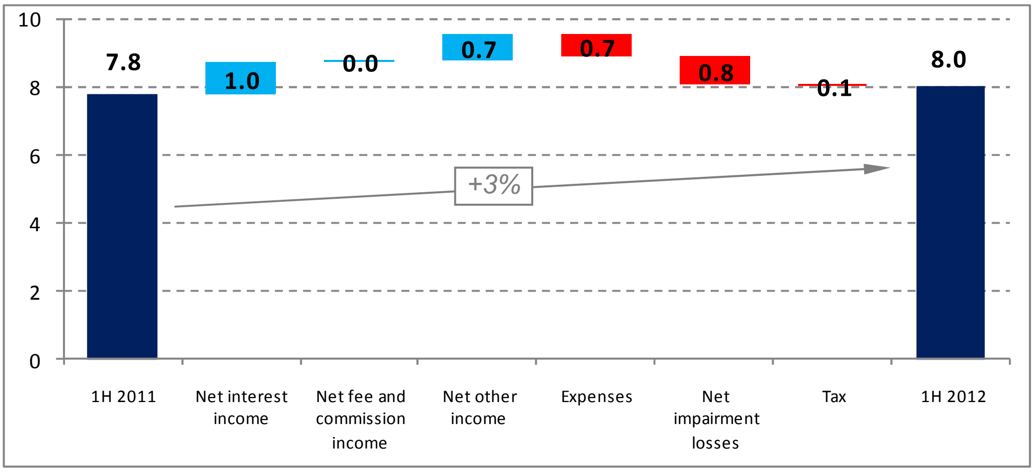
In the first half of 2012, the activity in the share market significantly decreased. The total value of trading in these instruments was over PLN 205 billion, which means a decline both compared to the first and the second half of the previous year (by 26.1% and 20.6%, respectively).

The opposite trend was noted on the debt market. The first half of 2012 in this segment ended with the increase in turnover by 30.4% on a half-yearly basis and by 51.2% compared to the corresponding period of 2011.

As in the case of the share market, the activity of investors on the derivatives market significantly decreased in the first six months of 2012. In this period the volume of trade in futures was over 11.2 million units and lower by 15.9% YoY and by 28.7% compared to the second half of 2011. In the case of the options market the trading volume was 595,000 units and lower both compared to the first and the second half of 2011 (by 41.4% and 23.6%, respectively).

4. Banking sector

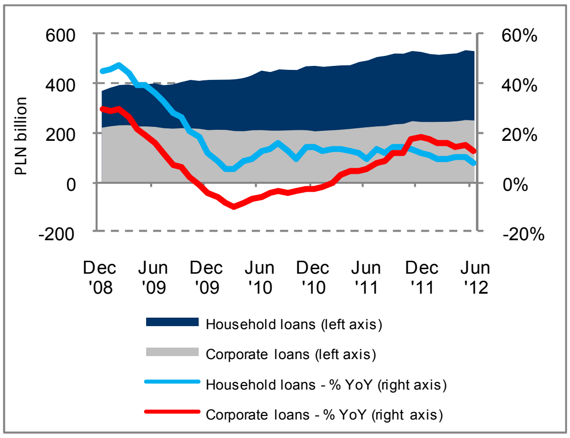
Net profit of the banking sector in the first half of 2012 (PLN billion)



Source: National Bank of Poland, own calculations

Net profit for the sector increased in the first half of 2012 by 3% YoY (+ PLN 0.3 billion) and reached slightly more than PLN 8 billion. The result was improved by the increase in the interest income by 6% YoY (+ PLN 1.0 billion) and other income by 17% YoY (+ PLN 0.7 billion), while the commission income remained at a similar level during the analyzed period. The total income of the banking sector rose by 6% YoY to PLN 30.1 billion. In the first half of 2012, a rise in costs by 5% YoY (+PLN 0.7 billion) and increase in net impairment losses by 18% YoY (+PLN 0.8 billion) had a negative impact on the net income of the banking sector. The increase in impairment losses was significantly affected by the deterioration of big companies loan portfolio quality (due the problems of construction companies, among other things). The non-performing loans ratio (NPL) for loans granted to large companies remains in uptrend from January 2012 (7.3%). In June 2012 this ratio reached 9.4% (increase by 1.2 percentage points YoY), while the NPL ratio for the SME portfolio fluctuates around 12.2%. The household porfolio quality decreased slightly (NPL around 7.3% compared to 7.2% as at the end of June 2011); the increase in the NPL ratio for the housing loans (+0.5 percentage points up to 2.6% at the end of June 2012) is the most important for the future situation of the banking sector, due to the over 40% share in the whole portfolio of amounts due from non-financial sector.

Loans granted to corporate clients and households



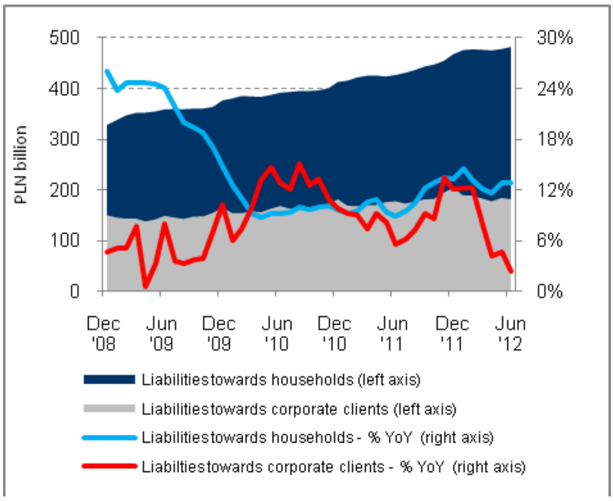
Source: National Bank of Poland, own calculations

The sector efficiency, measured by the cost-to-income ratio, slightly improved. The ratio fell from 51% to 50%.

In the first half of 2012 the banking sector recorded gradual decrease in the rate of loan value. As at the end of June 2012, the value of loans granted to enterprises was PLN 252 billion (i.e. an increase by 12% compared to the balance as at the end of June 2011). Taking into consideration the purpose of loans taken by enterprises, the balance of investment credits grew the most rapidly (+ 19% YoY, increase by PLN 12.9 to PLN 80 billion). Furthermore, as regards the original maturity, the sharpest increase was recorded for the period from 5 to 10 years (up by 16% YoY).

A gradual slowdown in the growth rate was also recorded for the loans granted to households As at the end of June 2012, their volume increased on yearly basis by 8% YoY (+ PLN 37 bn), mainly because of housing loans, the value of which was PLN 326 billion as at the end of the first half of 2012 (up by 12% YoY). The dynamics of the portfolio is sensitive to foreign exchange fluctuations. After elimination of weakening of the zloty against the Swiss franc and the euro by 7% YoY, the volume of housing loans increased by approx. 7% YoY (+ PLN 21 billion). The dynamics of consumer loans portfolio have been negative for 16 months, which results from implementation of regulatory restrictions As at the end of June 2012, the value of that portfolio was nearly PLN 131 billion (3 billion less than in the corresponding period of the previous year, i.e. decrease by 3% YoY).

Deposits of corporate clients and households



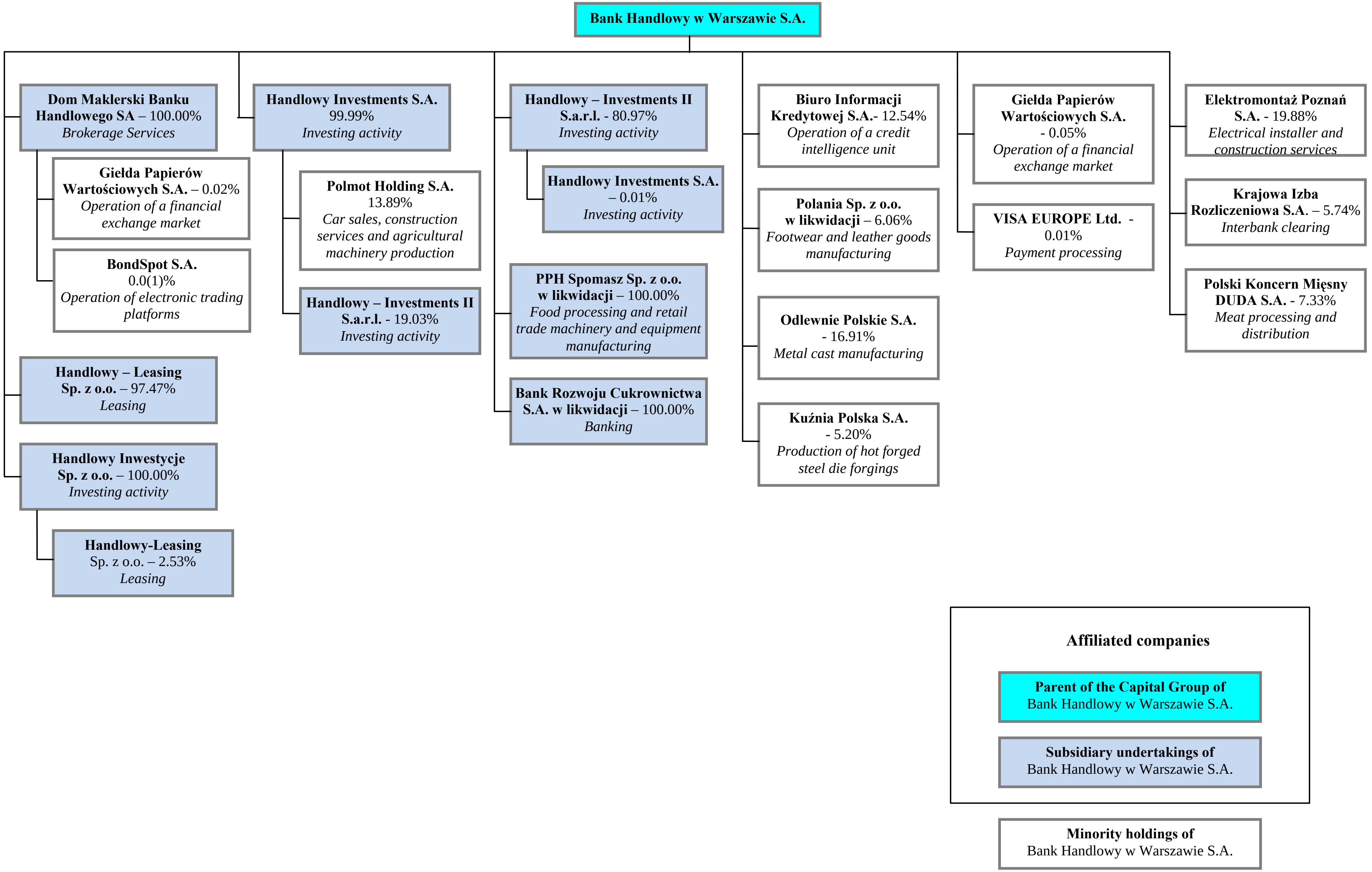
Source: National Bank of Poland, own calculations

The volume of current deposits of enterprises as at the end of the first half of 2012 fell by 5% YoY to PLN 81 billion, while the balance of term deposits rose by 9% YoY to PLN 102 bn in the corresponding period. Total deposits of enterprises increased at a rate of 2% YoY, which means the lowest annual growth since April 2009.

Much faster growth rate was recorded for household deposits. Their balance rose by PLN 55 billion (+13% YoY) to PLN 482 billion. 93% growth was attributable to term deposits (+51 billion, 26% YoY), while the volume of current deposits at the end of June 2012 went up merely by 2% YoY (+ PLN 4 billion). The annual growth rate for household deposits increased compared to June 2011 and reached 9% YoY. It demonstrates the growing interest in bank deposits as a safe form of saving considering the continued uncertainty in capital markets.

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

The organizational chart below depicts the structure of the Capital Group of Bank Handlowy w Warszawie S.A. (Bank) as at 30 June 2012; the Bank's share interest in each specified.


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

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

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

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30.06.2012
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	6,611,366
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	93,065
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	155,054
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	29,367
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	in liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2012*
*** Including indirect participations*
**** Pre-audit data*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30.06.2012
Handlowy Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	10,957
Handlowy Investments II S.a.r.l.***	Investing activity	subsidiary	100.00%**	equity valuation	6,845
Bank Rozwoju Cukrownictwa S.A. w likwidacji***	Banking	subsidiary	100.00%	equity valuation	in liquidation

*** Including indirect participations*
**** Pre-audit data*

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

1. Summary financial data of the Group

PLN million	30.06.2012	31.12.2011
Total assets	41,856.0	42,278.2
Equity	6,675.3	6,444.5
Loans*	14,760.9	14,719.5
Deposits*	20,925.0	23,922.0
Net profit	474.3	736.4
Capital adequacy ratio	18.3%	16.4%

** Due from and to the non-bank financial sector entities, non-financial sector entities (the latter including public sector entities).*

2. Financial result of the Group for the first half of 2012

2.1 Income statement

In the first half of 2012, the Group generated gross profit of PLN 594.9 million, which represented an increase by PLN 180.2 million (i.e. 43.5%) compared to the first half of 2011. In the same period the consolidated net profit was PLN 474.3 million, which is an increase by PLN 141.7 million (i.e. 42.6%) versus prior year period. Operating revenue (comprising net interest and net fee and commission income, dividend income, net gains on financial instruments held-for-trading and on revaluation, net gains on investment debt securities and net other operating income) increased in the first half of 2012, compared to the first half of 2011, by PLN 223.4 million (i.e. 18.9%) and amounted to PLN 1,407.6 million.

Key contributors to net profit surge included net gains on investment debt securities, which grew by PLN 107.7 million (i.e. 950.5%), net gains on financial instruments held-for-trading and on revaluation (increase by PLN 87.3 million, i.e. 66.8%) and net interest income, which went up by PLN 71.4 million to PLN 766.7 million. At the same time, impairment of financial assets value and provisions for off-balance sheet liabilities also significantly improved in the first half of 2012 (i.e. by PLN 22.5 million).

On the other hand, the factors which adversely affected net profit in the first half of 2012 included overheads and depreciation expenses (increase by PLN 63.4 million, i.e. 8.9%, resulting from establishment of a restructuring provision in the amount of PLN 42.2 million) and, on the revenue side, net fee and commission income that went down by nearly PLN 34.0 million (i.e. 10.1%) versus prior year period, to PLN 303.3 million.

Selected income statement items

	1st half of		Change	
PLN '000	**2012**	**2011**	**PLN '000**	**%**
Net interest income	766,731	695,289	71,442	10.3%
Net fee and commission income	303,346	337,312	(33,966)	(10.1%)
Dividend income	5,489	5,657	(168)	(3.0%)
Net income on financial instruments held for trading and on revaluation	218,017	130,679	87,338	66.8%
Net gain on investment debt securities	119,068	11,334	107,734	950.5%
Net other operating income	(5,083)	3,928	(9,011)	(229.4%)
Total income	**1,407,568**	**1,184,199**	**223,369**	**18.9%**
Overheads and general administrative expenses and depreciation, including:	(778,183)	(714,761)	(63,422)	8.9%
Overheads and general administrative expenses	(743,870)	(685,559)	(58,311)	8.5%
Depreciation/amortization of tangible and intangible fixed assets	(34,313)	(29,202)	(5,111)	17.5%
Net gains on sale of non-financial assets	68	2,276	(2,208)	(97.0%)
Net impairment losses on financial assets and provisions for off-balance sheet liabilities	(34,800)	(57,313)	22,513	(39.3%)
Share in net profits/(losses) of entities valued by equity method	265	316	(51)	(16.1%)
Profit before taxation	**594,918**	**414,717**	**180,201**	**43.5%**
Income tax expense	(120,597)	(82,097)	(38,500)	46.9%
Net profit	**474,321**	**332,620**	**141,701**	**42.6%**

2.1.1 Revenue

Net interest income in the first half of 2012 was PLN 766.7 million against PLN 695.3 million in the same period of 2011 - growth by PLN 71.4 million or 10.3%, driven mainly by higher interest income on debt securities held for trading (PLN +37.7 million) and available for sale (PLN +22.6 million) due to higher average balance and profitability of portfolio, as well as higher interest income on receivables from customers (PLN +51.0 million) following growth of customer loans by 17% YoY. At the same time, interest costs increased in the first half of 2012, which was related in particular to liabilities to banks (liability balance increase by PLN 1.8 billion YoY) and non-financial sector (driven by deposit increase by PLN 0.5 billion YoY and interest rate increase).

Net fee and commission income in the first half of 2012 was PLN 303.3 million, compared to PLN 337.3 million in the same period of 2011 – decrease by PLN 34.0 million or 10.1%, primarily due to lower commission income related to Group's participation in sizeable financing and capital market transactions. High net fee and commission income in the first half of 2011 was mainly attributed to Group's participation in the following transactions: public call for shares of BZ WBK S.A., the Initial Public Offering of Jastrzębska Spółka Węglowa S.A. and the Initial Public Offering of Bank Gospodarki Żywnościowej S.A. The Bank was also one of the leading banks in the consortium that provided a loan to Cyfrowy Polsat S.A. In the first half of 2012, the Group participated in an accelerated share sale transaction of Polska Grupa Energetyczna S.A. The decline in commission income from the brokerage operations was also due to a lower equity turnover in the first half of 2012 by 26% versus prior year period. On the other hand, higher commission income from payment and credit cards was reported, as a result of increased transaction volumes on cards and increased acquisition in the first half of 2012.

Net income on financial instruments held for trading and on revaluation in the first half of 2012 was PLN 218.0 million, compared to PLN 130.7 million in the same period of 2011 (increase by PLN 87.3 million or 66.8%). The increase was mainly the effect of better result on the Bank's proprietary management.

Net gain on investment debt securities in the first half of 2012 was PLN 119.0 million, compared to PLN 11.3 million in prior year period (surge by 107.7 million or 950.5%) mainly due to the realized gains in the declining bond yields environment in the first quarter of 2012.

2.1.2 Expenses

In the first half of 2012 the overheads and general administrative expenses and depreciation amounted to PLN 778.2 million, compared to PLN 714.8 million in the same period of 2011 (growth by PLN 63.4 million or 8.9%). The increase in expenses resulted mainly from establishment of a restructuring provision in the first quarter of 2012 in the amount of PLN 42.2 million (including PLN 32.4 million for staff expenses and PLN 9.8 million for premises maintenance and rent expenses) related to optimization of the Bank's branch network and other sectors of the Bank. The other contributor to higher expenses was an increase in spending for Consumer Bank's technology infrastructure. On the other hand, the Bank reported lower spending on direct distribution channels and transactional costs versus prior year period.

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

Net impairment losses

	1st half of		Change	
PLN '000	**2012**	**2011**	**PLN '000**	**%**
Net impairment losses incurred but not reported (IBNR)	(1,669)	3,793	(5,462)	(144.0%)
Net impairment losses on loans and off-balance sheet liabilities	(31,391)	(62,150)	30,759	(49.5%)
accounted for individually	(6,529)	28,396	(34,925)	(123.0%)
accounted for collectively, on a portfolio basis	(24,862)	(90,546)	65,684	(72.5%)
Other	(1,740)	1,044	(2,784)	(266.7%)
Total change in impairment losses	**(34,800)**	**(57,313)**	**22,513**	**(39.3%)**

In the first half of 2012, net impairment losses stood at PLN 34.8 million, compared to PLN 57.3 million in the first half of 2011. Much lower net impairment losses referred to better quality of the consumer loan and credit card portfolios of Consumer Bank. At the same time, in the first half of 2012, a part of retail impaired exposures of PLN 89.5 million was sold (written-off the Bank's balance sheet in full) for PLN 14.2 million. The increase in net impairment losses in Corporate Banking by PLN 10.3 million was predominantly a result of higher risk of borrowers' failure to fulfill their obligations under loan agreements on time.

2.1.4 Ratios

Selected financial ratios

	1st half of 2012	1st half of 2011
Return on equity (ROE) *	14.8%	12.8%
Return on assets (ROA) **	2.2%	1.6%
Cost/income	55%	60%
Non-financial sector loans to non-financial sector deposits	77%	69%
Non-financial sector loans to total assets	33%	31%
Net interest income to total revenue	54%	59%
Net commission income to total revenue	22%	28%

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

Employment within the Group

in FTEs	1st half of 2012	1st half of 2011	Change	
			FTEs	%
Average no. of FTEs in the period	5,461	5,797	(336)	(5.8)
No. of FTEs at the end of the period	5,295	5,879	(584)	(9.9)

In the first half of 2012, the Group saw a significant drop in the employment versus prior year period. This was a result of collective layoffs that started in this period as part of employment restructuring which followed optimalization of branch network that aimed to increase effectiveness in retail business and other areas of the Bank.

2.2 Consolidated statement of financial position

As at 30 June 2012, total assets of the Group were PLN 41.9 billion, down by 1% versus the end of 2011.

Consolidated statement of financial position

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
ASSETS				
Cash and balances with Central Bank	646,256	979,616	(333,360)	(34.0%)
Amounts due from banks	1,020,211	548,256	471,955	86.1%
Financial assets held for trading	6,948,566	5,805,044	1,143,522	19.7%
Debt securities available-for-sale	15,608,249	17,625,355	(2,017,106)	(11.4%)
Equity investments, valued at equity method	14,835	57,945	(43,110)	(74.4%)
Other equity investments	24,994	24,912	82	0.3%
Amounts due from customers	14,760,867	14,719,473	41,394	0.3%
Tangible fixed assets	444,539	457,929	(13,390)	(2.9%)
Intangible assets	1,309,998	1,292,067	17,931	1.4%
Income tax assets	294,522	338,757	(44,235)	(13.1%)
Other assets	757,259	403,182	354,077	87.8%
Non-current assets held-for-sale	25,662	25,662	-	-
Total assets	**41,855,958**	**42,278,198**	**(422,240)**	**(1.0%)**

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
LIABILITIES				
Amounts due to banks	8,749,699	6,011,378	2,738,321	45.6%
Financial liabilities held-for-trading	3,643,835	4,840,447	(1,196,612)	(24.7%)
Amounts due to customers	21,121,471	24,095,847	(2,974,376)	(12.3%)
Liabilities due to debt securities issuance	23,054	25,336	(2,282)	(9.0%)
Provisions	73,063	34,914	38,149	109.3%
Income tax liabilities	22,821	72,921	(50,100)	(68.7%)
Other liabilities	1,546,693	752,874	793,819	105.4%
Total liabilities	**35,180,636**	**35,833,717**	**(653,081)**	**(1.8%)**
EQUITY				
Share capital	522,638	522,638	-	-
Share premium	3,011,380	3,009,396	1,984	0.1%
Revaluation reserve	36,298	(82,294)	118,592	(144.1%)
Other reserves	2,638,277	2,264,082	374,195	16.5%
Retained earnings	466,729	730,659	(263,930)	(36.1%)
Total equity	**6,675,322**	**6,444,481**	**230,841**	**3.6%**
Total liabilities and equity	**41,855,958**	**42,278,198**	**(422,240)**	**(1.0%)**

2.2.1 Assets

Gross loan receivables

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Non-banking financial institutions	790,709	1,028,401	(237,692)	(23.1%)
Non-financial business entities	9,132,569	8,449,181	683,388	8.1%
Individual clients	5,964,403	5,854,862	109,541	1.9%
Public administration units	128,981	606,439	(477,458)	(78.7%)
Other non-financial sector entities	4,972	16,379	(11,407)	(69.6%)
Total	**16,021,634**	**15,955,262**	**66,372**	**0.4%**

In the first half of 2012, gross loan receivables from clients grew by 0.4% compared to the end of 2011 and amounted to PLN 16.0 billion. The growth referred mainly to non-financial business entities (PLN +0.6 billion or 8.1%) and individual clients (PLN +0.1 billion or 1.9% due to increase in mortgage loan portfolio). The lower gross receivables were noted in case of public administration units (PLN -0.5 billion or -78.7%) and non-banking financial institutions (PLN -0.2 billion or -23.1%).

Debt securities portfolio

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Treasury bonds	11,107,730	8,248,116	2,859,614	34.7%
Treasury bills	214,156	148	214,008	-
Bank's bonds	2,659,179	2,403,458	255,721	10.6%
Bonds issued by non-financial entities	-	423,185	(423,185)	(100.0%)
NBP bills	5,233,881	8,492,235	(3,258,354)	(38.4%)
Total	**19,214,946**	**19,567,142**	**(352,196)**	**(1.8%)**

The debt securities portfolio in the first half of 2012 remained almost unchanged versus the end of 2011, mainly as a result of a decrease in the NBP bills portfolio (by PLN 3.3 billion or 38.4%), with a simultaneous increase in the value of treasury bond portfolio by PLN 2.9 billion (or 34.7%).

2.2.2 Liabilities

Amounts due to customers

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Deposits to financial sector entities*	**2,673,014**	**2,231,183**	**441,831**	**19.8%**
Deposits to non-financial sector entities*, including:	**18,232,433**	**21,670,515**	**(3,438,082)**	**(15.9%)**
corporate clients	10,487,724	12,317,777	(1,830,053)	(14.9%)
individual clients	6,112,995	5,982,349	130,646	2.2%
public administration units	1,631,714	3,370,389	(1,738,675)	(51.6%)
Other liabilities (including accrued interest)	**216,024**	**194,149**	**21,875**	**11.3%**
Total	**21,121,471**	**24,095,847**	**(2,974,376)**	**(12.3%)**

** liabilities excl. accrued interest*

On the liabilities side, the biggest change was recorded for liabilities towards clients, which declined by PLN 3.0 billion, i.e. 12.3%, as compared to the end of 2011. The drop was mainly a result of decreased level of deposits within the corporates and public sector clients (decrease by PLN 1.8 billion or 14.9% and by PLN 1.7 billion or 51.6%, respectively). In the same period, consumer deposits were slightly up by PLN 0.1 billion or 2.2%, reflecting an increased current account balance, resulting from consistent implementation of the strategy focused on operating accounts. There was also an increase in customer deposits of financial sector entities (PLN +0.4 billion or 19.8%).

2.2.3 Sources and uses of funds

PLN '000	30.06.2012	31.12.2011
Source of funds		
Funds of banks	8,749,699	6,011,378
Funds of customers	21,121,471	24,095,847
Own funds with net income	6,675,322	6,444,481
Other external funds	5,309,466	5,726,492
Total source of funds	**41,855,958**	**42,278,198**
Use of funds		
Receivables from banks	1,020,211	548,256
Receivables from customers	14,760,867	14,719,473
Securities, shares and other financial assets	22,596,644	23,513,256
Other uses of funds	3,478,236	3,497,213
Total use of funds	**41,855,958**	**42,278,198**

2.3 Equity and capital adequacy ratio

The Group's equity increased by 8.6% as at the end of the first half of 2012 in comparison with the end of 2011. The increased supplementary capital (PLN +365.4 million) and general risk reserve (PLN +10.0 million) resulted from appropriating 50% of the Bank's 2011 profit for the Bank's equity. In the first half of 2012, also the revaluation reserve increased by PLN 118.6 million versus the end of 2011, which resulted mainly from increase in valuation of investment debt securities.

Equity*

	As at		Change	
PLN '000	30.06.2012	31.12.2011	PLN '000	%
Share capital	522,638	522,638	-	-
Share premium	3,011,380	3,009,396	1,984	0.1%
Supplementary capital	2,126,900	1,761,529	365,371	20.7%
Revaluation reserve	36,298	(82,294)	118,592	(144.1%)
General risk reserve	507,500	497,500	10,000	2.0%
Other equity	(3,715)	(701)	(3,014)	430.0%
Total equity	**6,201,001**	**5,708,068**	**492,933**	**8.6%**

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

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

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

Capital adequacy ratio*

PLN '000		30.06.2012	31.12.2011
I	**Own funds in total, including:**	**4,875,267**	**4,354,853**
	Reduction of basic and supplementary funds		
	investments in financial entities	14,835	57,945
	intangible assets, including:	1,309,997	1,292,066
	Goodwill	1,245,976	1,245,976
II	**Risk-weighted assets and off-balance-sheet commitments (bank portfolio)**	**18,849,613**	**18,042,413**
III	**Total capital requirements, including:**	**2,132,557**	**2,130,748**
	credit risk capital requirements (II*8%)	1,507,969	1,443,393
	counterparty risk capital requirements	97,683	133,148
	capital requirements for excess of exposures' concentration limit and large exposures' limit	67,086	87,064
	total market risk capital requirements	71,570	83,167
	operational risk capital requirements	366,893	360,531
	Other capital requirements	21,356	23,445
	Capital adequacy ratio (I/III*12.5)	**18.3%**	**16.4%**

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

As at 30 June 2012, capital adequacy ratio of the Group amounted to 18.3% and was by 1.9 percentage point higher comparing to the end of 2011. This was mainly due to increase in the Group's own funds resulting from appropriating 50% of the Bank's 2011 profit for capital needs. The total capital requirement remained almost unchanged.

2.4 Earnings guidance for 2012

The Bank as the parent entity did not publish earnings guidance for 2012.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2012

1. Lending and other risk exposure

1.1 Lending

The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of customer's operations. Additionally, each borrower is followed up on an ongoing basis so that any symptoms of deteriorating creditworthiness may be detected early and subsequent corrective actions implemented. In the first half of 2012, the Group continued optimization of the lending process and adjustment of the loans offered to the actual needs of customers and the current situation in the market. The portfolio of individual customers' debts is managed by means of risk management models that take into account risk and profitability of the individual loan groups within the portfolio. In the credit risk assessment process of Consumer Banking customers, in particular during scorecard analysis, information from the Credit Information Bureau (BIK) is used.

Gross loans to customers

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
PLN loans	13,511,163	13,267,524	243,639	1.8%
FX loans	2,510,471	2,687,738	(177,267)	(6.6%)
Total	**16,021,634**	**15,955,262**	**66,372**	**0.4%**
Loans to non-financial sector	15,230,925	14,926,861	304,064	2.0%
Loans to financial sector	790,709	1,028,401	(237,692)	(23.1%)
Total	**16,021,634**	**15,955,262**	**66,372**	**0.4%**
Non-financial business entities	9,132,569	8,449,181	683,388	8.1%
Individual clients	5,964,403	5,854,862	109,541	1.9%
Non-banking financial institutions	790,709	1,028,401	(237,692)	(23.1%)
Public administration units	128,981	606,439	(477,458)	(78.7%)
Other non-financial receivables	4,972	16,379	(11,407)	(69.6%)
Total	**16,021,634**	**15,955,262**	**66,372**	**0.4%**

As at 30 June 2012, gross credit exposure to clients was PLN 16.0 billion, increasing by 0.4% in comparison to the level of 31 December 2011. The biggest part of the non-banking loan portfolio are loans to non-financial business entities, which increased by 8.1% in the first half of 2012. Loans to individual clients went up by 1.9% versus the end of 2011, reaching in total PLN 6.0 billion.

The currency structure of the loans as at the end of June 2012 changed slightly as compared to the end of 2011. The share of foreign currency loans as at 30 June 2012 declined to 15.7% versus the level of 31 December 2011. It must be noted that loans are granted mainly in PLN. FX loans are granted to corporate clients, who are able – in the opinion of the Group – to bear the foreign exchange risk without affecting their financial condition.

The Group regularly monitors credit exposure concentration, trying to avoid situations where the portfolio might rely on a small number of customers. As at the end of June 2012, the credit exposure of the Group to non-banking sector was within the legal concentration limit.

Concentration of exposure: non-banking customers

PLN '000	30.06.2012			31.12.2011		
	On-Balance Sheet exposure*	Off-Balance Sheet exposure	Total exposure	On-Balance Sheet exposure*	Off-Balance Sheet exposure	Total exposure
GROUP 1	283,008	674,366	957,374	6	533,350	533,356
CLIENT 2	716,500	200,050	916,550	691,400	75,150	766,550
GROUP 3	278,447	450,260	728,707	328,489	419,451	747,940
CLIENT 4	491,539	177,124	668,664	-	-	-
GROUP 5	331,126	165,012	496,137	266,619	61,608	328,227
GROUP 6	298,339	140,437	438,776	365,220	337,648	702,868
CLIENT 7	-	408,000	408,000	-	-	-
GROUP 8	4	400,931	400,935	5	200,930	200,935
GROUP 9	294,231	69,753	363,984	242,188	153,769	395,957
GROUP 10	234,170	123,663	357,833	187,823	20,539	208,362
Total 10	**2,927,363**	**2,809,597**	**5,736,960**	**2,081,750**	**1,802,445**	**3,884,195**

** Excluding exposures related to shares and other securities held by the Bank*

Concentration of exposure in individual industries*

Sector of the economy according to Polish Classification of Economic Activity (PKD)	30.06.2012		31.12.2011	
	in PLN '000	in %	in PLN '000	in %
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	3,554,919	19.3	3,666,012	20.8
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,683,328	14.5	1,504,309	8.5
Financial intermediation, except for insurance and retirement fund business	1,497,290	8.1	1,484,166	8.4
Retail trade, except of motor vehicles and motorcycles	1,386,281	7.5	1,216,060	6.9
Production of food and beverages	876,692	4.7	996,792	5.6
Wholesale and retail trade of motor vehicles; repair of motor vehicles	760,241	4.1	689,224	3.9
Production of the basic pharmacy substances, medicines and other pharmacy products	746,608	4.0	510,935	2.9
Fabricating of coke, petroleum products and nuclear fuels	730,772	4.0	750,022	4.2
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	512,689	2.8	585,434	3.3
Manufacture of electric goods	442,539	2.4	451,385	2.6
Top 10 business sectors	**13,191,359**	**71.4**	**11,854,339**	**67.1**
Construction of buildings	400,365	2.2	400,201	2.3
Manufacture of chemicals and chemical products	366,757	2.0	356,961	2.0
Production of metallic goods, except for machines and equipment	363,092	2.0	380,510	2.2
Public administration; Compulsory social insurances and general health insurances protection	323,335	1.8	825,239	4.7
Production of goods out of other non-metallic resources	265,040	1.4	259,094	1.5
Telecommunication	258,829	1.4	263,904	1.5
Manufacture of rubber and plastic products	258,560	1.4	267,054	1.5
Activities of head offices; management consultancy activities	254,293	1.4	191,107	1.1
Production of beverages	227,050	1.2	237,375	1.3
Manufacture of furniture	223,600	1.2	228,580	1.3
Top '20' business sectors	**16,132,280**	**87.4**	**15,264,364**	**86.5**
Other sectors	**2,327,551**	**12.6**	**2,392,469**	**13.5**
Total	**18,459,831**	**100.0**	**17,656,833**	**100.0**

**Balance and off-balance exposure to institutional customers, gross (including banks).*

1.2 Loan portfolio quality

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

Customer receivables divided into not at risk / at risk of impairment

PLN '000	30.06.2012	31.12.2011	Change	
			PLN '000	%
Not at risk of impairment, including:	14,455,788	14,356,929	98,859	0.7%
non-financial sector entities	13,684,076	13,347,525	336,551	2.5%
corporate clients*	8,590,296	8,331,622	258,674	3.1%
individual clients	5,093,780	5,015,903	77,877	1.6%
With recognized value loss, including:	1,449,418	1,481,786	(32,368)	(2.2%)
non-financial sector entities	1,430,421	1,462,789	(32,368)	(2.2%)
corporate clients*	559,798	616,513	(56,715)	(9.2%)
individual clients	870,623	846,276	24,347	2.9%
Dues related to matured derivative transactions	116,429	116,547	(118)	(0.1%)
Total gross receivables from customers, including:	**16,021,635**	**15,955,262**	**66,373**	**0.4%**
non-financial sector entities	15,114,497	14,810,314	304,183	2.1%

PLN '000	30.06.2012	31.12.2011	Change	
			PLN '000	%
corporate clients*	9,150,094	8,948,135	201,959	2.3%
individual clients	5,964,403	5,862,179	102,224	1.7%
Impairment write-downs, including:	**(1,260,768)**	**(1,235,789)**	**(24,979)**	**2.0%**
Dues related to matured derivative transactions	(95,200)	(96,063)	863	(0.9%)
Total net receivables from customers	**14,760,867**	**14,719,473**	**41,394**	**0.3%**
Provision coverage ratio	**80.4%**	**76.9%**		
corporate clients*	63.9%	60.0%		
individual clients	90.6%	88.7%		

Corporate clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.

The provision coverage ratio for receivables with recognized value loss grew by 3.5 p.p. against the level of December 2011 and amounted to 80.4% in the first half of 2012.

A breakdown by performing and non-performing receivables is presented below. As compared to the end of 2011, non-performing loans ratio went down to 8.7% as at 30 June 2012.

Customer receivables, gross, divided into performing vs. non-performing

PLN '000	30.06.2012	31.12.2011	Change	
			PLN '000	%
Performing loans, including:	14,519,382	14,425,608	93,774	0.7%
non-financial sector entities	13,747,670	13,416,204	331,466	2.5%
corporate clients*	8,590,296	8,331,622	258,674	3.1%
individual clients	5,157,374	5,084,582	72,792	1.4%
Non-performing loans, including:	1,385,824	1,413,107	(27,283)	(1.9%)
non-financial sector entities	1,366,827	1,394,110	(27,283)	(2.0%)
corporate clients*	559,798	616,513	(56,715)	(9.2%)
individual clients	807,029	777,597	29,432	3.8%
Dues related to matured derivative transactions	116,429	116,547	(118)	(0.1%)
Total gross receivables from customers	**16,021,635**	**15,955,262**	**66,373**	**0.4%**
Non-performing loans ratio (NPL)	**8.7%**	**8.9%**		

Corporate clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.

As at 30 June 2012, the impairment write downs of the portfolio were at PLN 1,260.8 million, which represented a growth by PLN 25.0 million (i.e. 2%), compared to the end of 2011. The increase in impairment was recorded mainly in the portfolio assessed collectively: PLN 27 million i.e. 3.8% growth compared to the end of 2011. In the first half of 2012, impairment write-downs in the portfolio assessed individually declined slightly by PLN 3.0 million i.e. by 0.8%, as compared to December 2011.

The impairment write-downs of the customer loan portfolio

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Incurred but not reported losses (IBNR)	147,980	146,995	985	0.7%
Impairment value for receivables:	1,112,787	1,088,794	23,993	2.2%
Assessed individually	367,054	370,035	(2,981)	(0.8%)
Assessed collectively, on a portfolio basis	745,733	718,759	26,974	3.8%
Total impairment write-downs	**1,260,767**	**1,235,789**	**24,978**	**2.0%**

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.

1.3 Off-balance sheet exposure

As at 30 June 2012, the Group's off-balance sheet exposure amounted to PLN 14.1 billion, growing by PLN 0.7 billion (5.1%) from the figure reported at the end of 2011. The biggest change concerned guaranteed issues which increased by PLN 0.7 billion (122.3%).

Contingent off-balance sheet liabilities from clients

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Guarantees granted	1,891,400	2,054,187	(162,787)	(7.9%)
Import letters of credit issued	151,320	132,833	18,487	13.9%
Export letters of credit confirmed	23,177	5,385	17,792	330.4%
Lines of credit granted	10,624,165	10,674,678	(50,513)	(0.5%)
Securities issuance guarantees granted to other issuers	1,225,050	551,150	673,900	122.3%
Other	225,856	31,410	194,446	619.1%
Total	**14,140,968**	**13,449,643**	**691,325**	**5.1%**
Provisions for off-balance sheet exposure	11,261	11,474	(213)	(1.9%)
Provision coverage ratio	0.08%	0.09%		

The total value of collateral securing borrower's accounts or assets was PLN 2,274 million as at 30 June 2012 versus PLN 1,736 million as at 31 December 2011.

In the first half of 2012, the Group issued 5,464 enforcement titles for the total amount of PLN 84.3 million, while in the first half of 2011 it issued 6,256 enforcement titles for the total amount of PLN 61.6 million.

At the end of the first half of 2012, the total value of guarantees or sureties issued by the Bank or its subsidiary to one entity was not higher than 10% of the Group's equity.

2. External funding

At the end of June 2012, the Group's external funding totaled to PLN 8.7 billion and was higher by PLN 2.7 billion (45.6%) than the figure reported at the end of 2011, while the funding from customers stood at PLN 21.1 billion at the end of first half of 2012, down by PLN 3.0 billion against the level recorded at the end of 2011.

Funding from banks

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Current accounts	902,673	1,304,018	(401,345)	(30.8%)
Term deposits	3,983,106	4,132,423	(149,317)	(3.6%)
Loans and advances received	503,640	556,973	(53,333)	(9.6%)
Liabilities from securities sold under repurchase agreement	3,351,043	-	3,351,043	-
Other liabilities	5,690	10,518	(4,828)	(45.9%)
Accrued interest	3,547	7,446	(3,899)	(52.4%)
Total	**8,749,699**	**6,011,378**	**2,738,321**	**45.6%**

Funding from customers

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Deposits from financial sector				
Current accounts	282,115	267,645	14,470	5.4%
Term deposits	2,390,899	1,963,538	427,361	21.8%
Accrued interest	3,555	1,077	2,478	230.1%
	2,676,569	**2,232,260**	**444,309**	**19.9%**

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Deposits from non-financial sector				
Current accounts, of which:	11,219,382	12,961,126	(1,741,744)	(13.4%)
corporate clients	5,261,325	5,616,881	(355,556)	(6.3%)
individual clients	4,918,517	4,736,739	181,778	3.8%
public administration units	1,039,540	2,607,506	(1,567,966)	(60.1%)
Term deposits, of which:	7,013,051	8,709,389	(1,696,338)	(19.5%)
corporate clients	5,226,399	6,700,896	(1,474,497)	(22.0%)
individual clients	1,194,478	1,245,610	(51,132)	(4.1%)
public administration units	592,174	762,883	(170,709)	(22.4%)
Accrued interest	15,973	19,230	(3,257)	(16.9%)
	18,248,406	**21,689,745**	**(3,441,339)**	**(15.9%)**
Total deposits	**20,924,975**	**23,922,005**	**(2,997,030)**	**(12.5%)**
Other liabilities				
Other liabilities, including	195,775	173,089	22,686	13.1%
cash collaterall	60,901	73,729	(12,828)	(17.4%)
Accrued interest	721	753	(32)	(4.2%)
	196,496	**173,842**	**22,654**	**13.0%**
Total external funding	**21,121,471**	**24,095,847**	**(2,974,376)**	**(12.3%)**

The biggest change was related to liabilities to the non-financial sector, which went down by PLN 3.4 billion (15.9%). The decrease was reported for public administration units and corporate clients, and it resulted from lower current account balances (by 1.7 billion or 13.4%) and also term deposit balances (decline by nearly PLN 1.7 billion or 19.5%). On the other hand, deposits of financial sector entities went up (by PLN 0.4 billion or 19.9%).

Liabilities towards customers*

PLN '000	As at		Change	
	30.06.2012	31.12.2011	PLN '000	%
Individual clients	6,122,993	5,993,449	129,544	2.2%
Non-financial business entities	9,963,012	11,959,519	(1,996,507)	(16.7%)
Non-commercial institutions	575,146	419,993	155,153	36.9%
Non-bank financial institutions	2,673,039	2,231,595	441,444	19.8%
Public administration units	1,632,159	3,370,872	(1,738,713)	(51.6%)
Other liabilities**	134,874	99,361	35,513	35.7%
Total	**21,101,223**	**24,074,789**	**(2,973,566)**	**(12.4%)**
PLN	16,305,986	19,113,310	(2,807,324)	(14.7%)
Foreign currency	4,795,237	4,961,479	(166,242)	(3.4%)
Total	**21,101,223**	**24,074,789**	**(2,973,566)**	**(12.4%)**

** liabilities excluding accrued interest*
*** excluding cash collateral*

3. Corporate Banking

3.1 Summary of segment results

PLN '000	1st half of 2012	1st half of 2011	Change	
			PLN '000	%
Net interest income	376,350	321,368	54,982	17.1%
Net fee and commission income	131,101	167,020	(35,919)	(21.5%)
Dividend income	1,775	1,283	492	38.3%
Net income on financial instruments held for trading and on revaluation	199,454	117,247	82,207	70.1%
Net gain on debt investment securities	119,068	11,334	107,734	950.5%
Net other operating income	7,224	14,694	(7,470)	(50.8%)
Total income	**834,972**	**632,946**	**202,026**	**31.9%**
General administrative expenses and depreciation	(340,397)	(306,834)	(33,563)	10.9%
Profit / (loss) on sales of non-financial assets	47	115	(68)	(59.1%)
Net impairment losses on financial assets and provisions for off-balance sheet liabilities	(8,570)	1,183	(9,753)	(824.4%)
Share in net profits (losses) of entities accounted for under the equity method	265	316	(51)	(16.1%)
Profit before tax	**486,317**	**327,726**	**158,591**	**48.4%**
Cost / Income	**41%**	**48%**		

The main factors that determined the gross result of Corporate Banking for the first half of 2012, as compared to the corresponding period of 2010, were as follows:

- increase in net interest income as a result of higher income from debt securities, mainly those held for trading (an effect of an increased average portfolio balance);
- decline in commission income as a result of Group's participation in sizeable financing and capital market transactions. High net fee and commission income in the first half of 2011 was mainly attributed to Group's participation in the following transactions: public call for shares of BZ WBK S.A., the Initial Public Offering of Jastrzębska Spółka Węglowa S.A. and the Initial Public Offering of Bank Gospodarki Żywnościowej S.A. The Bank was also one of the leading banks in the consortium that provided a loan to Cyfrowy Polsat S.A. In the first half of 2012, the Group participated in an accelerated share sale transaction of Polska Grupa Energetyczna S.A.;
- increase in net income on financial instruments held for trading and on revaluation mainly due to better result on the Bank's proprietary management;
- increase in net gain on investment debt securities due to the realized gains in the favourable macroeconomic environment (declining bond yields on the domestic market);
- increase in general administrative expenses resulting from higher staff expenses (due to increase in salaries and settling a PLN 4.3 million provision for the severance pays for employees of Corporate Banking covered by the employment restructuring) and higher one-time marketing expenses in the second quarter of 2012;
- increase of net impairment losses as a result of higher risk of borrowers' failure to fulfill their obligations under loan agreements on time, mainly in the portfolio assessed individually.

3.2 Corporate and Investment Bank and the Capital Markets

3.2.1 Corporate and Commercial Bank

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

At the end of the first half of 2012 the number of corporate clients was over 8,000, including roughly 6,000 in the segment of enterprises (small and medium enterprises, large companies and public sector).

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

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

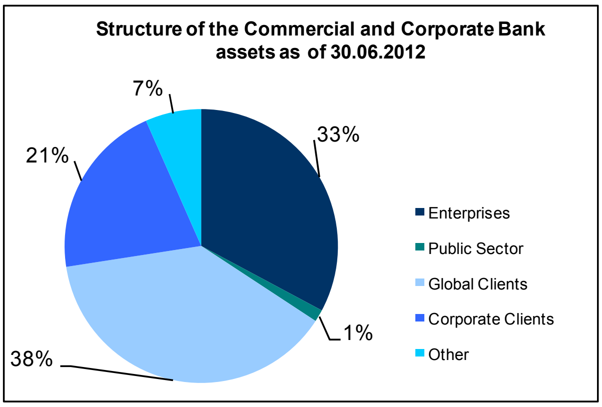
Assets

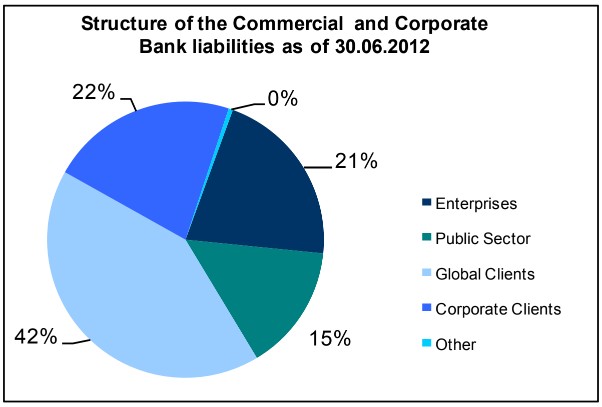
PLN million	30.06.2012	31.12.2011	30.06.2011	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises*, including:	2,967	2,824	2,506	143	5%	461	18%
SMEs	1,510	1,494	1,324	16	1%	186	14%
MMEs	1,457	1,329	1,182	127	10%	275	23%
Public Sector	129	109	156	21	19%	(27)	(17%)
Global Clients	3,470	3,317	3,207	153	5%	263	8%
Corporate Clients	1,882	2,207	1,099	(325)	(15%)	783	71%
Other**	601	612	664	(11)	(2%)	(63)	(10%)
Total Corporate and Commercial Bank	**9,049**	**9,069**	**7,632**	**(19)**	**(0%)**	**1,417**	**19%**

Liabilities

PLN million	30.06.2012	31.12.2011	30.06.2011	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises*, including:	2,982	3,289	2,692	(306)	(9%)	290	11%
SMEs	2,231	2,344	1,955	(112)	(5%)	276	14%
MMEs	751	945	737	(194)	(21%)	14	2%
Public Sector	2,096	3,642	1,811	(1,546)	(42%)	285	16%
Global Clients	5,924	7,258	6,345	(1,334)	(18%)	(421)	(7%)
Corporate Clients	3,107	2,981	3,442	126	4%	(335)	(10%)
Other**	72	52	37	20	39%	35	95%
Total Corporate and Commercial Bank	**14,183**	**17,222**	**14,327**	**(3,040)**	**(18%)**	**(144)**	**(1%)**

** Enterprises include clients with annual turnover from PLN 3.2 million to PLN 150 million (SME) and over PLN 150 million (large enterprises).*
*** 'Other' include, among others, clients subject to restructuring and clients of Handlowy Leasing Sp. z o.o., who are not clients of the Bank.*





In the first half of 2012 customer assets of Corporate and Commercial Banking grew by 19% as compared with the corresponding period of 2011. The highest increase was reported in the Corporate Clients segment (up by 71% YoY) driven by financing granted to customers from pharmaceutical sector and to the largest domestic energy distributor.

Key transactions in Corporate and Commercial Bank in the first half of 2012:

- The Bank was involved in the process of completion of the largest foreign acquisition by a Polish company, carried out by KGHM Polska Miedź S.A. – the leader on the Polish copper market. A Canadian mining company (Quadra FNX) was the object of the acquisition, and the transaction value was almost PLN 9 billion. Citi Handlowy was one of the banks providing financial services during the process (USD/CAD exchange transactions and the final transaction settlement). This spectacular project was implemented under the *Emerging Market Champions* program which has been running in the Bank since October 2011;
- In the first half of 2012, the Bank entered into the following agreements for financing of corporate clients from the banking, power, FMCG, pharmaceutical and retail trade sectors:
  - A 3-year loan agreement with a customer from the banking sector. The Bank is one of the main arrangers, and also the one with the highest exposure - CHF 100 million. Additionally, the Bank acts as the Documentation Agent and Loan Agent;
  - Short-term loan agreement of PLN 600 million;
  - Long-term loan agreement of PLN 256 million;
  - Overdraft facility agreement of PLN 200 million (combined with the transaction service agreement);
  - Medium-term loan agreement of PLN 100 million;
- In the first half of 2012 the Bank entered into the following agreements related to bond programs:
  - An annex to the agreement for inter-company bond program was entered into by the Bank (inclusion of further entities from the capital group into the program), in order to increase the effectiveness of short-term liquidity management in one of companies from the fuel and energy sector;
  - In June 2012, an annex was signed to an agreement concluded in December 2010, which increased the value of the bond issue program for a customer from the power sector, with the Bank's exposure at PLN 917 million;
  - in June 2012, the Bank signed a new bond issue program agreement with a customer from the power sector. The Bank's share in the financing of the program is PLN 400 million;
- The Bank entered into an agreement with a customer from the public sector for bridge financing in the form of reverse factoring, of EUR 18 million, with the following maturity dates: EUR 9 million – 31 March 2012, EUR 4.5 million – 30 June 2012 and EUR 4.5 million – 31 August 2012. In addition, the Bank granted a line of credit of PLN 8 million to the customer for futures and derivatives transactions;
- In the first half of 2012 the Bank carried out a number of financing transactions with Commercial Banking customers, including: a PLN 20 million overdraft facility for a distributor of home products, garden furniture and HoReCa segment products; a PLN 15 million commercial loan and a PLN 5 million overdraft facility for a mining equipment manufacturer; an increase of an overdraft facility from PLN 10 million to PLN 29.9 million for a customer from the foundry industry;
- In the first half of 2012, the Bank carried out the following transactions with Global clients:
  - The Bank was involved in the process of organizing and partial financing of export for one of the leading manufacturers in the broader automotive industry. The value of the program is EUR 150 million, with the Bank's share of EUR 52 million;
  - The Bank started cooperation with a customer from the fuel and energy sector, entering into a PLN 240 million agreement for current financing;
  - In June 2012, the Bank finalized a trade finance transaction for a major construction sector manufacturer, covering 450 cooperating entities. The value of the program is PLN 85 million;
  - The Bank signed an agreement with a leading food sector customer for two-year financing amounting to PLN 100 million;
  - The Bank entered into an agreement for financing the operating activities with a new client from the food sector of PLN 50 million;

3.2.2 Treasury Products

The Bank is the leader on the corporate FX transactions market. In May 2012 prestigious Euromoney magazine published a ranking in which the Bank took, fourth time in a row, the first place in the category of FX trading with corporate clients. In this category, the Bank had a 28% share in the Polish market, which was 10 p.p. higher than the runner-up. The ranking is developed on the basis of a market share estimated with data collected from clients-respondents. This international study, backed by more than thirty years of tradition, enjoys an exceptional reputation in the financial community. The ranking is determined by voting customers, who complete anonymous on-line surveys, providing, among other, the FX volumes traded with the cooperating banks;

Thanks to the extensive range of services offered to customers, opportunities to invest funds and to manage currency position, the Bank keeps its leading position on the corporate FX transactions market.

In the first half of 2012, the performance of the Bank in FX transactions with corporate clients was very good with volumes growing by 38% compared to the first half of 2011.

In February 2012, the Bank was involved in one of the largest investments in the Polish history – acquisition of Quadra FNX by KGHM Polska Miedź S.A. (described in detail at p. 23). This project was implemented under the *Emerging Market Champions* program. The Treasury actively participated in financial servicing of this historical undertaking.

As regards transactions on Treasury bonds concluded with financial institutions, the turnover volume in the first half of 2012 increased by over 139% compared to the first half of the previous year. Such result was achieved thanks to a competitive Treasury bonds purchase and sale offer aimed at institutional investors.

The Bank has a leading position as the arranger of the issue of bonds and deposit certificates for banks. According to the Rating&Market report of Fitch Ratings agency, as at the end of June 2012, the Bank had almost 37% share on that market.

CitiFX Pulse, an electronic FX platform, enjoys a remarkable interest. In the first half of 2012 over 70% of the clients making FX transactions took advantage of the possibility to make such transactions on-line on their own. The platform is an innovative and functional tool that offers a broad package of useful additions and, what is most important, gives an unlimited access to real-time quotations and the broadest range of currency pairs. Clients have a possibility to make transactions on their own for attractive prices, place buy and sell orders at a specified rate and have access to economic analyses and current news from the world and Poland. The volume of transactions carried out by electronic means through the CitiFX Pulse platform in the first half of 2012 increased by 58% compared to the corresponding period of 2011.

The Bank ranked first in the competition for the Treasury Securities Dealer for the year 2013, organized by the Ministry of Finance.

3.2.3 Transaction Services

The Bank is a leading transaction banking service provider in Poland. In parallel with traditional banking services, the Bank delivers modern liquidity management solutions as well as mass payment and receivables management products.

Transaction banking products and services include the following:

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

Electronic banking is the key area of transaction services for enterprises. In the first half of 2012 the following changes were made in the range of e-banking products for corporate clients of the Bank.

- The Bank implemented a new version of CitiDirect system – CitiDirect Banking Evolution (“CitiDirect BE”). The functionalities offered by the new platform are aimed in particular at SME clients. CitiDirect BE is one of means used by the Bank to win new clients and make current clients more active. The most important features of the new system are: quick access to the functions used the most often, possibility to customize the displayed content to individual user needs, simplified method of entering payments;

- In the first half of 2012, the Bank also launched new CitiDirect Mobile solution. The service enables clients to authorize and make payments as well as view their account information via mobile devices;

- The Bank launched a large project – SpeedCollect Plus, which can assign incoming payments to individual invoices even if the payments are batched or partial or do not contain the correct liability description, thanks to the new functionality of identification of incoming payments. The new functionality is another factor extending Bank’s advantage in this market segment – the Bank has nearly fifteen years’ experience in SpeedCollect service, it was also the first institution on the Polish market which offered a product of this type. This solution enables automatic settlement of receivables. It is an excellent facility for companies with large bases of customers making frequent payments and it makes it possible to manage their counterparties’ settlements effectively.

Expansion among public sector customers plays an essential role in the Bank’s strategy for transaction services development. In the first half of 2012 the Bank won a number of new customers from this sector, most of which were courts, at which the continuously developed MicroPayments product is aimed. The range of new functionalities already included into the MicroPayments platform enhanced the flexibility of the system and reduced the amount of customer’s labor required to operate the application.

The Bank dynamically expands the range of trade finance products, and its growing role in this market area is emphasized by participation in an international syndicate of banks financing a transaction for one of the largest manufacturers of agricultural machinery in Europe. One of the largest transactions of this type on the Polish market was secured by Korporacja Ubezpieczeń Kredytów Eksportowych S.A. („KUKE S.A.”).

Deposits and current accounts

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

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

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

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

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

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

Liquidity management products

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

- actual cash pooling;

- virtual cash pooling;

- net balance.

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

MicroPayments

In the first half of 2012 the Bank continued to strengthen its position of the leader in the market segment in which it offers the MicroPayments product. During this period the Bank won a number of institutions which decided to use the solution offered by the Bank. MicroPayments are used by entities which accept cash deposits from various payers and have the obligation of returning these together with accrued interest. This module supports calculation of historical interest value, in other words, the allocation of interest amounts to respective past deposits of the payer.

The functionality of MicroPayments platform is continuously developed. The process of operating the system by the customer is being simplified and automated, disadvantages are being eliminated. The time bracket for placing orders during the work day has been extended. Interest may be charged based on different periods. The range of available repayment options is equally wide.

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

Electronic banking

CitiDirect is the primary electronic banking system the Bank offers to its corporate clients. In the first half of 2012 two events significant to electronic banking took place: A new CitiDirect BE Mobile service was launched, enabling access to electronic banking via mobile devices such as smartphones and tablets. A new version of the electronic banking, called CitiDirect Banking Evolution (CitiDirect BE), significantly enhanced satisfaction of SME clients. This service enables access to standard functionalities of electronic banking system and has a simplified user interface, which in turn facilitates operating the system. Feedback from SME customers confirms the advantages of the new platform.

In 2011 CitiDirect.pl portal was launched, responding to the clients' expectations for access to all information about the system in one place. It enjoys great popularity, proved by 8,000 unique page views per month.

Significant information about electronic banking in the first half of 2012:

- The total number of transactions processed electronically by CitiDirect system in the first half of 2012 was over 12 million, which means a 2.5% growth compared to the first half of 2011;
- The number of corporate clients using the CitiDirect system actively was 4,400, which means an 8% decline compared to the first half of 2011;
- At the end of the first half of 2012 the number of corporate clients activated in CitiDirect grew by 5% compared to the end of the first half of 2011 and exceeded 11,000.
- The number of SME clients activated in the new CitiDirect EB at the end of the first half of 2012 exceeded 550.
- The share of bank statements delivered to clients through electronic means only stayed at a high level, i.e. about 90%.

Card products

The Bank's share in the prepaid card market was approx. 40% in the first half of 2012. The Bank's prepaid cards are most frequently used under loyalty, promotional and incentive programs. Prepaid cards are also an excellent tool for social benefits distribution. Thanks to their broad functionality they meet various needs of customers.

The Bank continued to strengthen its position in the business cards segment by ongoing improvement of customer service quality and customization of the product range. With this strategy, the transactional indices significantly improved – in the first half of 2012 the cash transactions' value increased by 19%

compared to the corresponding period of 2011, while the non-cash transactions' value grew by 8%, and the number of cash and non-cash transactions increased by 9% and 11%, respectively.

Direct Debit

In the first half of 2012 the Bank maintained its leader position in the Direct Debit market by settling the highest number of transactions as the creditor's bank. The number of settled transactions was comparable to that in the corresponding period of the previous year.

SpeedCollect

SpeedCollect is a service for creditors – bulk payment recipients – enabling the automatic posting of receivables. In the first half of 2012 the Bank maintained its leading position in the market as regards the processed volume of transactions.

International transfers

In the first half of 2012, the volume of international transfers increased by over 10% compared to the corresponding period in 2011.

Cash products

The Bank provides its clients with comprehensive cash management services. The highest volume of cash transactions serviced by the Bank is over-the-counter deposits. A vast majority of over-the-counter deposits is in a closed form, i.e. it is delivered to the Bank in sealed packages and counted without the client being present.

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

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

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

EU Office

In the first half of 2012 the EU Office pursued its operational strategy in the area of EU consultancy. The strategy was based on increasing the effectiveness of the services provided assuming the expected flows of EU funds included in the financial outlook for Poland for the years 2007-2013.

The result of the information campaign, presenting options for the use of EU funds allocated to Poland in the financial outlook for the years 2007-2013, was growing interest in the offer among many clients. During the analyzed period the Office employees met with several dozen clients. The meetings resulted in entering into new EU consultancy agreements totaling to over PLN 0.5 million.

An important element of the work of the EU Office in the first half of 2012 was promotion of a technological loan. In the effect of those activities many clients got acquainted with the mechanism of that instrument in the context of the latest changes derived from the amendment to the act on supporting innovation.

The EU Office participated in the preparation of new lines of business based on the model of functioning and flow of EU funds in the financial outlook for Poland for the years 2014-2020. The new strategy aims to present new/active role of banks in implementation and distribution of EU funds.

Trade finance products

Trade finance products play a significant role in the Bank's transaction services. Receivables financing through factoring, commercial loans, as well as financing with buyer's credit are key elements of this product group.

Customers' interest in trade finance products induced the Bank to gradually increase its assets for this purpose. In the first half of 2012, the Bank's average assets within finance products were on average higher by 26% compared to the first half of the previous year.

At the turn of 2011, the Bank extended its range with a new solution – commercial loan which provides comprehensive financing of working capital necessary to maintain current financial liquidity. Several clients, mainly from the sector of large and medium enterprises, used the product in the first few months of its operation. In June 2012 the Bank enabled foreign currency financing, which made the commercial loan more attractive.

In the first half of 2012 the Bank participated in one of the largest buyer credit transaction on the Polish market for one of the largest manufacturers of agricultural machinery in Europe. It was also the largest transaction supporting Polish exports for Korporacja Ubezpieczeń Kredytów Eksportowych S.A. in the first half of 2012. The Bank's share in this transaction under international loan syndicate was EUR 51 million.

The Bank has a long-term experience and high quality structured trade finance services to its credit. Significant events in the first half of 2012 in that area included:

- a substantial growth of business in the Bank's largest supplier finance program for the largest chain store in Poland,
- completion of of a structured reverse factoring transaction of PLN 75 million for one of the biggest construction chemicals manufacturers in Poland;
- cooperation with other financial institutions in order to launch and develop discount-on-receivables programs for the largest entities from petrochemical industry.

3.2.4 Custody and Depository services

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

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

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

As at 30 June 2012, the Bank managed almost 14,000 securities accounts.

During that time the Bank acted as the depositary for five Open Pension Funds (OFE): Amplico OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE, Nordea OFE, for two voluntary pension schemes: MetLife Amplico DFE, Nordea DFE and for two employee pension funds: Employee Pension Fund PZU „Sunny Automn” (Pracowniczy Funduszu Emerytalny PZU ,,Słoneczna Jesień”) and Employee Pension Fund of Telekomunikacja Polska S.A.

The Bank acted as the depositary for investment funds managed by the following Investment Fund Companies: BZ WBK TFI S.A., PKO TFI S.A., Pioneer Pekao TFI S.A., Legg Mason TFI S.A., Aviva Investors Poland TFI S.A.

3.2.5 Brokerage services

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

In the first half of 2012 DMBH acted as an intermediary in 11.2% of secondary equities trading (data do not include calls), thus retaining its first position in terms of share in turnover among members of the WSE. Over this period the value of equity trades executed via DMBH on the Warsaw Stock Exchange was PLN 23 billion (down by 22.5% compared to the corresponding period of the previous year). The value of trading on WSE went down by 26.1% compared to the corresponding period of the previous year.

At the end of the first half of 2012 the number of investment accounts kept by DMBH was 9,600, compared to over 9,200 at the end of 2011, and it grew by 3.5%.

At the end of the first half of 2012 DMBH was the Market Maker for 39 companies, representing nearly 10.5% of all the shares listed on the main market of the WSE. The number of companies for which DMBH acts as the market maker once again placed DMBH among the leading brokerage houses performing this function on the WSE Not only the number of companies for which the Market Maker performed its function but also the Market Maker's activity in the first half of 2012 remained at a high level. In addition, DMBH performed the same function in respect of WIG20 index linked futures contracts.

In the first half of 2012 DMBH carried out the following capital market transactions:

- Warsaw Stock Exchange – DMBH acted as Joint Lead Manager in a public offering of B-series bonds of PLN 75 million (February 2012);
- Polska Grupa Energetyczna S.A. – DMBH acted as Co-Bookrunner in the process of accelerated sale of a block of shares held by State Treasury of PLN 2.5 billion (February 2012);
- KRKA, d.d. – DMBH acted as an investment company to support KRKA in the admission to trading process at WSE (April 2012);
- Dom Maklerski TMS Brokers S.A. – DMBH acted as an intermediary in a tender offer announced by Nabbe Investments worth PLN 114 million (April 2012);
- Dom Maklerski TMS Brokers S.A. – DMBH acted as an intermediary in a squeeze out announced by Nabbe Investments worth PLN 15 million (June 2012);
- Centrum Klima S.A. – DMBH acted as an intermediary in a tender offer announced by Lindab AB worth PLN 56 million (June 2012);

Summary Income Statement and Balance Sheet *

Company's Name	Headquarters	Participation interest of the Bank in equity %	Balance sheet as at 30.06.2012 PLN '000	Equity as at 30.06.2012 PLN '000	Net financial result for 01.01-30.06.2012 PLN '000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	730,143	93,065	6,019

** Unaudited data*

3.2.6 Leasing

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

The total value of new leased assets in the first half of 2012 was PLN 129.2 million, meaning a 2% decline compared to PLN 131.5 million in leased assets in the first half of 2011.

The structure of the leased assets in the first half of 2012 was as follows:

- vehicles represented 61% of net value of leasing assets (NAV),
- machinery and equipment represented 39% of NAV.

Net value of leases

PLN million	1st half of 2012	1st half of 2011	Change PLN million	%
Value of leases contracted in the period, including:	129.2	131.5	(2.3)	(2%)
for vehicles	78.8	94.7	(15.9)	(17%)
for machinery and equipment	50.4	36.8	13.6	37%

Summary Income Statement and Balance Sheet *

Company Name	Headquarters	Participation interest of the Bank in equity %	Balance sheet as at 30.06.2012 PLN '000	Equity as at 30.06.2012 PLN '000	Net financial result for 01.01-30.06.2012 PLN '000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	694,973	155,054	4,690

**Unaudited data*

4. Consumer Banking

4.1 Summary of the segmental results

PLN '000	1st half of 2012	1st half of 2011	Change PLN' 000	%
Net interest income	390,381	373,921	16,460	4.4%
Net fee and commission income	172,245	170,292	1,953	1.1%
Dividend income	3,714	4,374	(660)	(15.1%)
Net income on traded financial instruments and revaluation	18,563	13,432	5,131	38.2%
Net other operating income	(12,307)	(10,766)	(1,541)	14.3%
Total income	**572,596**	**551,253**	**21,343**	**3.9%**
General administrative expenses and depreciation	(437,786)	(407,927)	(29,859)	7.3%
Profit/(loss) on sale of non-financial assets	21	2,161	(2,140)	(99.0%)
Net impairment losses	(26,230)	(58,496)	32,266	(55.2%)
Profit before tax	**108,601**	**86,991**	**21,610**	**24.8%**
Cost/Income	**76%**	**74%**		

The main factors that determined gross result of Consumer Bank in the first half of 2012, as compared to the corresponding period of 2011, were as follows:

- increase in net interest income as a result of higher interest income from mortgage loans and cash loans; at the same time, interest costs grew slightly with a deposit increase of 7% YoY;
- increase in net fee and commission income, primarily driven by higher commissions from credit cards (mainly as an effect of increased value of card transaction volumes);
- increase in operating expenses, mainly as a result of optimization of the branch network and related support units at the headquarters (for more information on optimization of the branch network, please see page 31 below); a restructuring provision was established for this purpose in the first quarter of 2012 in the amount of PLN 42.2 million, PLN 37.9 million of which was disclosed in the results of the Consumer Banking Segment; additionally, when comparing to the corresponding period last year, the Bank increased spending on technology infrastructure while decreasing expenses on direct distribution channels and marketing;
- decline in net impairment losses, reflecting the changes in the credit policy made in the past years and

their positive impact on the quality of consumer loans' and credit cards' portfolio; at the same time, in the first half of 2012, a part of retail impaired exposures of PLN 89.5 million was sold (written-off the Bank's balance sheet in full) for PLN 14.2 million – regains from portfolio that was earlier written-off.

4.2 Selected business data

	1st half of 2012	1st half of 2011	Change
Number of individual customers*	949,822	987,079	(37,257)
Number of current accounts, including:	667,390	628,483	38,907
number of operating accounts*	183,642	169,158	14,484
Number of newly acquired operating accounts during the reported period*	41,284	58,128	(16,844)
Number of saving accounts	220,738	217,882	2,856
Number of credit cards, including:	819,701	871,299	(51,598)
co-branded cards	471,434	483,932	(12,498)
Number of active credit cards	738,517	778,454	(39,937)
Number of debit cards, including:	462,444	468,882	(6,438)
PayPass cards	377,824	269,742	108,082

** The comparative data for H1 2011 differ from the data presented in the H1 2011 Consolidated Report due to a change in the calculation methodology.*

4.3 Business highlights

Optimization of the branch network and employment restructuring

On 19 March 2012 the Management Board of the Bank informed that at the request of the Management Board the Supervisory Board adopted the Strategic Directions for the years 2012-2015 in accordance with which effectiveness remains one of main priorities of the Bank for the years 2012-2015. The Consumer Bank carries on activities aimed at adapting its business model to the strategy for the retail banking by focusing on segments, products and markets that in the Bank's opinion have the highest potential of growth in the future and are more resistant to economic slowdown. It is continuation of the previous operations, started in 2010, aimed at focusing the retail area on higher market segments and on the strengths of the Bank's product range – e.g. credit card, since the Bank has the leading position on the credit card market. As regards the customer service model, it means concentration and strengthening the Bank's position in the largest conurbations of Poland, which are strategically important target markets, with increasing the role of remote channels – on-line and mobile banking, in which the Bank is among market leaders.

As a result, the Bank decided to decrease the number of retail banking outlets to roughly 90. This decision is a continuation of the already undertaken activities regarding geographical concentration of the outlet network within the largest Polish conurbations ("G9"). Part of the outlets (around 20) located outside the target markets was closed, and the customers of these markets were provided with alternative service options (cash payment desks and ATMs/CDMs for cash transactions, remote channels – internet, mobile and telephone banking – for other transactions). The remaining outlets (around 35) were consolidated with the existing branches (i.e. part of employees as well as customer portfolios and services was transferred to other branches/the nearest outlets). In this way the risk of losing customers – and the risk of the resulting income decrease – was minimized.

This process is supported through undertakings to adapt the business model for customer service and product sales to the strategy of the Consumer Bank. The Bank wants to increase the use of alternative channels of distribution and electronic platforms (internet banking, mobile banking, direct sales agencies, telesales) intensively developed over the last 2-3 years, while the activities of the traditional branch network will be focused on high quality service as well as consultancy and sales.

The decrease of the number of outlets results in termination of employment relationships with Bank employees, both in the Bank's branch network and in other organization units, in a number not exceeding 590 persons. In Q1 2012 a restructuring reserve was created for this purpose, amounting to PLN 42.2 million (of which PLN 37.9 million was included in the result of Consumer Bank and PLN 4.3 million in the result of Corporate Bank).

On 17 July 2012 the Management Board of the Bank decided to prolong the process of collective redundancies under restructuring until 30 November 2012 and to restructure other sectors of the Bank apart from Consumer Bank. The total number of employees affected by restructuring will remain at the previously indicated level, i.e. 590 persons, and the planned activities will be carried out under the restructuring reserve referred to above.

Credit Cards

As at the end of the first half of 2012, the number of credit cards was 820,000.

According to the data available at the end of Q1 2012, the Bank kept its leading position on the credit card market in terms of transaction value, with a market share of 22.5%. The Bank stayed in the lead in terms of the value of credit card credits – the market share as at the end of the first half of 2012 was 18.8% compared to 18.0% as at the end of the first half of 2011.

In order to stimulate credit card payments, the Bank carried out a number of promotions and contests where the clients could win non-cash prizes and money.

Bank Accounts

- **Current Accounts**

As at the end of the first half of 2012, the number of individual accounts exceeded 667,000 (while at the end of June 2011 it was 628,000). 464,000 of them were Polish zloty accounts, and 203,000 were foreign currency accounts. The total balance of accounts was almost PLN 2.4 billion, while at the end of June 2011 it was PLN 2 billion. In order to increase the total balance of individual accounts, the Bank continued its policy of establishing customer relations and encouraging customers to actively use their individual accounts.

- **Savings Accounts**

The number of savings accounts as at the end of first half of 2012 totaled almost 221,000. The total balance of funds in the saving accounts was over PLN 2.5 billion compared to 218,000 savings accounts with the total balance of almost PLN 2.5 billion in the corresponding period of the previous year.

Loan Products

- **Cash Loan**

At the end of the first half of 2012 the number of active clients with cash loans was 75,000.

In Q1 2012 the Bank conducted a broad marketing campaign “We will reduce your loan installments by 250 zloty on average", which resulted in a significant sales growth.

- **Mortgage Products**

As at the end of the first half of 2012, the total balance of the mortgage portfolio amounted to PLN 759 million, which means an increase by 76%, compared to the balance as at the end of the first half of 2011.

As at the end of June 2012, the Bank employed advisors in dedicated Mortgage Centers and cooperated with over 1,700 external partners offering products of the Bank.

Following the adopted strategy, the Bank developed a competitive home equity loan offer in order to increase the loan share in the total sales of mortgage products (i.e. home equity and mortgage loans). In March, the home equity loan offer ranked first in Open Finance and Gazeta Finansowa survey, as the most attractive product on the market in terms of price.

In the first half of 2012, the Bank actively offered mortgage loans to its customer base. The offer was outstanding thanks to attractive prices as well as quick process and product availability.

Insurance and Investment Products

At the end of the first half of 2012, the total value of funds in investment products (including certificates of deposit, dual currency investments, unit-linked deposits and insurance products) purchased by customers through the Bank was 13% lower than the first half of 2011 figure, which was a consequence of the lower value of assets due to stock market falls over the last 12 months and increased redemptions. The value of these funds was PLN 4.5 billion at the end of the first half of 2012, compared to PLN 5.2 billion at the end of the first half of 2011.

In that period, increased investments levels were recorded for the following types of products: government and corporate bonds (+11%), structured products in the form of investment-linked life insurance (+12%), regular-premium unit-linked insurance funds (+18%).

Five new investment funds were added to the Bank's investment product portfolio in the first half of 2012 (two money market funds, two bond funds and one equity fund).

As regards structured products, in the first half of 2012 the Bank conducted 19 subscriptions of structured bonds and 5 subscriptions of investment-linked life insurance.

5. Achievements of respective distribution channels

5.1 Branch network

As at the end of the first half of 2012, the branch network of the Bank comprised 96 outlets and included the L type outlets (formerly the Corporate Bank, the CitiGold Wealth Management outlets and the Investment Center), the M type outlets (former multifunctional outlets) and the S type outlets (former CitiFinancial branches).

In accordance with the Strategic Directions for the years 2012-2015 and with a decision adopted by the Bank's Management Board to optimize the branch network, the Bank carried out the following operations in the first half of 2012:

- An M-type branch was opened in Warsaw at ul. Francuska 49 – the outlet continues the operations of the branch at ul. Garibaldi 4, closed down in 2011. The branch in the new location is fully functional and adapted to serving both retail and corporate clients;
- Due to the decision to sell the property, operations were discontinued in the L-type branch in Kraków at ul. Grzegórzecka 21. At the same time, in a new location in Kraków at Al. Gen. T. Bor-Komorowski 25b, Investment Center was opened to serve Citigold Select clients;
- due to circumstances preventing the extension of the lease agreement, L-type branch in Toruń at ul. Żółkiewskiego 21/29 was transferred to the existing expanded location at ul. Św. Katarzyny 4;
- An expanded M-type branch was opened in Bydgoszcz at ul. Gdańska 1;
- Eight branches were consolidated, which previously operated under the CitiFinancial brand (in Poznań, Warszawa, Wrocław, Legionowo, Lublin, Kraków, Gdańsk and Katowice). Actions here involved the transfer of these outlets' operations to existing M or L-type branches, which offer a complete range of Bank's products and services;
- operations were discontinued in 43 selected branches in the following towns and cities: Białystok, Bełchatów, Bydgoszcz, Bytom, Dąbrowa Górnicza, Gdynia, Gliwice, Głogów, Gorzów Wielkopolski, Grudziądz, Elbląg, Inowrocław, Katowice, Konin, Legnica, Leszno, Lublin, Łomża, Łódź, Mielec, Piotrków Trybunalski, Poznań, Pruszków, Radom, Olsztyn, Opole, Ostrów Wielkopolski, Sosnowiec, Szczecin, Tomaszów Mazowiecki, Tychy, Warszawa, Włocławek, Wrocław, Zabrze and Żory;
- the range of deposit services for retail customers in the following 3 M-type outlets (now L-type outlets) was extended: in Kraków, at ul. Rakowicka 1, in Włocławek, at Pl. Wolności 5 and in Konin, at ul. Chopina 21b.

In line with the Bank's effectiveness strategy, and to ensure efficient customer service, cash payment desks were opened in cooperation with Billbird and Brinks. They are located in those towns where the Bank decided to close down their only branch. They are a low-cost alternative to the basic service offered to Retail Banking and Corporate Banking customers. Eventually, customers will be able to carry out basic financial and non-financial transactions at those desks. The cooperation started with cash payments and repayment of loans owed to the Bank.

Number of branches as at the end of period

	1st half of 2012	1st half of 2011	Change
Number of outlets:	**96**	**152**	**(56)**
L-type	38	43	(5)
M-type	58	89	(31)
S-type	-	20	(20)
Other sales / customer service outlets:			
Plus outlets	-	14	(14)
Outlets of financial brokers (Open Finance, Expander)	340	123	217
Airports	4	1	3
BP gas stations	-	12	(12)
Shopping centers	16	26	(10)
Public transport (ZTM) ticket offices	-	13	(13)
Cash payment desks (Billbird and Brinks)	12	-	12
Own ATMs	120	133	(13)
Euronet ATMs with the logo of 'Citi Handlowy'	1,015	900	115

Indirect and Direct Customer Acquisition

- **Citibank at Work**

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

The first half of 2012 was a period of strengthening cooperation of the Citibank At Work Department with the present and new clients by selling products on special conditions. Following the Bank's strategy, personal account and credit card were the leading products.

During the analyzed period Citibank at Work acquired 875% more customers from CitiOne segment and 5% more CitiGold customers compared to the first half of 2011. The ratio of clients who regularly transfer their remuneration to accounts to the number of accounts opened at that time was 71%, while in the first half of 2011 it was 67%.

In the first half of 2012 the Financial Seminars initiative was continued, aimed at explaining the banking services and Bank products. The project covered 60 presentations for over 500 potential clients.

- **Direct Sales**

Direct Sales channel functioning within Direct Sales Department is an important acquisition pillar of the Bank regarding credit card sales. In the first half of 2012 Direct Sales channel recorded an improvement in credit card sales performance by 63% compared to the corresponding period of 2011.

The Bank continues its sales strategy for Direct Sales channel within which card sales is generated by two sub-channels - field teams and on-site teams operating at sales stands located in shopping centers, Multikino movie theaters and airports in main Polish cities.

The field teams of Direct Sales channel operate mainly in micro-enterprises, which enables the clients to purchase Bank's products at their workplace.

In the first half of 2012 the sales of services complementary to credit cards, mainly insurance, significantly increased. The average monthly penetration of product insurance was 45%, compared to 10% in the first half of 2011 and 16% in the second half of 2011.

5.2 Internet, Mobile and Telephone Banking

Mobile Banking

In the first half of 2012 the Bank developed the FotoKasa service. It is a service available under Citi Mobile application, which allows making fast payments via Citi Mobile through scanning codes (2D) containing transfer details that are placed by invoice issuers on paper bills or electronic bills. The companies that enable making payments via FotoKasa were joined by: Netia, Telekomunikacja Polska, PTK Centertel, MPT sp. z o.o. as well as Fundacja Integracja.

At the end of the first half of 2012, Citi Mobile (browser and application) was used by almost 85,000 clients, including almost 21,000 who logged to Citi Mobile for the first time in the reporting period.

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

On-line Banking

In the first half of 2012 the "I pay with Citi Handlowy" functionality was expanded, which enabled automated on-line payments on Allegro.pl website, on other websites of Allegro group and in more than 7.500 on-line shops using the PayU system.

The Bank made consistent efforts to increase the share of credit card sales in the total sales. In the first half of 2012, the share of on-line sales of that product in the total sales of the Bank grew by more than 70% compared to the corresponding period in 2011. At the same time the number of credit cards sold on-line more than doubled.

Due to the intensification of the Bank's on-line banking development activities the number of customers actively using the on-line banking service increased by 10% as at the end of the first half of 2012 compared to the first half of 2011.

Moreover, the Bank continued the development of electronic communications in social networking media. The Bank's Facebook fan page *Rabatowcy.pl* recorded a five-fold growth in the number of fans compared to the corresponding period in 2011. This means that 66,000 fans joined the fan page and, as a result, the Bank kept its leading position as regards the number of active users in banking category. On the other hand, Facebook activities as part of the promotion of CitiMobile services gathered a community of more than 46,000 fans.

6. Changes in information technology

In the first half of 2012 the Bank carried out projects supporting stable technological platform and enabling implementation of the current strategy of the Bank. The Bank promoted various initiatives to cut costs in the area of technology while improving the quality of the products offered. The Bank Product Research and Development Center, opened in 2011, carried on developing further innovative business and technological solutions.

IT processes of the Bank are of top global quality, which was confirmed in January 2012 by the positive result of the ISO 20000 regulatory audit, ISO 27001 re-certification audit and the audit confirming compliance of the Bank's business continuity program with the international standard BS25999.

In the first half of 2012, the following solutions were implemented:

- implementation of the system to serve "Omnibus" accounts in the area of custody of securities;
- automation and modernization of Micro-accounts product for management of financial reservations made on account of security of performance of agreements concluded between the Bank's customers and a payer;
- completion of „Poland HQ Cisco EOL" project including replacement of 75 key network devices and modernization of the network infrastructure in the Bank's head office premises in Warsaw; the initiative mitigated the operating risk associated with these elements of IT infrastructure for which service support provided by the suppliers was insufficient; the implementation resulted in 30% savings regarding maintenance service of network devices and enabled full implementation of IP telephony in buildings of the the Bank's head office in Warsaw;
- migration of TP S.A. voice services to Netia S.A. in 30 branches of the Bank and the Bank's head office premises; apart from significant savings, it brought modernization of the technology of connection between the Bank and operator (the use of SIP);
- gradual extension of IP telephony base in HQ and branches - 60% of branches use IPT telephony; completion of disposal of the last Alcatel telephone exchanges in Bank's branches;

- building infrastructure enabling broadcasting General Meeting sessions via internet; the first live webcast took place on 20 June 2012;

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

- adjustment of Bank's systems to the new EU Directive on capital requirements – CRD IV (Basel III);
- implementation of the integrated CitiRisk system in the risk management sector;
- implementation of new innovative electronic platform for trade finance services; the first phase was completed (MAIG suppliers and reverse factoring); eventually, the platform will be available to 1,000 customers;
- continuation of the pilot project of a new version of the electronic banking system for corporate clients (Citidirect);
- modernization of the application for investment clients, to improve the sales processes according to the MiFID directive;
- continuation of work over the system for cooperation with a new WSE transactions platform;
- implementation of a new integrated system platform for Consumer Bank (Rainbow project);
- implementation of a project that will allow to integrate financial and accounting systems of a client directly with the Bank and to acquire new clients in Corporate Bank;
- modernization of a platform to serve SpeedCollect – making a product to serve receivables products on the global market available to other group companies;
- expansion of the range of banking products, credit cards and mobile banking (applications for Blackberry devices and tablets);
- modernization of B2B (Business to Business) network infrastructure and network connection of the Bank to the new system of the Warsaw Stock Exchange with the use of it; migration of other B2B services to the new infrastructure.

7. Equity investments

Equity investments of the Group are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2012, the Group continued its earlier policy of equity investments. The guidelines for the strategic portfolio were: maximize profits over a long-term perspective, increase market share, develop cooperation with the Bank and expand the offering of the Group, while the objectives for the investments intended for sale were: optimize results of capital transactions and minimize risk in the related areas.

7.1 Strategic investments portfolio

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

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

7.2 Portfolio of investments intended for sale

Companies within this portfolio are those that are held by the Bank without a strategic aim, and include companies held by the Bank directly or indirectly, and also special-purpose investment vehicles through which the Bank runs capital transactions. Some of the companies intended for sale are restructured debts and were taken over by the Bank as part of debt for capital swap.

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

8. Other information about the Group

8.1 Awards and Honors

In the first half of 2012, the Bank, its brokerage house (DMBH) and the Kronenberg Foundation received a number of prestigious titles and awards:

- **Europroduct** – three services of the Bank were awarded in the 17th edition of the Europroduct contest. Among the awarded products were: Citi Mobile B2T, Citi Mobile FotoKasa, multipartner credit card – Citibank MasterCard World®. The contest is organized by Polskie Towarzystwo Handlowe under the patronage of the Minister of Economy and Polish Enterprise Development Agency (PARP). The purpose is to promote solutions that are considered best in the market and are aimed at catering for the customer needs in a comprehensive and professional way;
- It is the fourth time that Citi Handlowy came first in a survey of a British financial magazine – Euromoney. **The Bank's share in corporate FX trading market** was over 28% and almost two times higher than that of the runner-up. The survey is performed annually and includes the best institutions offering wealth management services. According to the Euromoney magazine, Citi Handlowy's CitiFX Pulse is **the most popular electronic FX platform in the market**. Over 77% of the FX transactions with corporate clients is made through the platform;
- Citi Handlowy ranked second in "**Quality Bank**" survey of 22 banks conducted by TNS Poland. Research partners are Puls Biznesu and Deloitte. The survey assessed the quality of service in branches. The assessment included an analysis of customer needs, presentation of products and services, outlet appearance and commitment of employees. Interviewers visited every tenth branch in Poland and conducted over 1,500 interviews with employees;
- Citi Handlowy was recognized two times in the Report on Innovativeness of Polish Economy of of 2011 prepared by Institute of Economics of the Polish Academy of Sciences (INE PAN): the second place in the ranking of **largest investors in research and development** in Poland in 2010; **Innovation Certificate** stating that the Bank was ranked 39th among **500 most innovative companies in Poland** in 2010 (25th among large companies); Citi Handlowy was recognized in terms of its market innovation, process innovation, its spending on innovation, new patents and European contracts;
- Citi Handlowy was named **Market Leader of Innovation** 2012 for its **Quality, Creativity and Effectiveness** in the ranking held by Economic Zone and Gazeta Wyborcza daily. Thus the jury acknowledged that the Bank is one of the most innovative companies. The title confirms the effectiveness of the Bank's strategy, with innovation being one of its pillars;
- Certificate "**Top Employers Poland 2012**" – the Bank for the second time was awarded the certificate and has been named in a prestigious group of 32 top employers in Poland. The Bank had particularly high results in the following categories: organizational culture of the company, professional career, fringe benefits and employment conditions. The Top Employers certificate is awarded by the independent Corporate Research Foundation Institute only to organizations satisfying top HRM standards;

- Citi Handlowy received the **Gold Banker 2011 Award** for the **best credit card in the market** and FotoKasa application. The 3rd edition of Gold Banker Award, held by Bankier.pl and PayU S.A., attracted almost 11,000 voters who selected the best financial services and products in 2011;
- Citi Handlowy was awarded with the title of **IT Banking Leader 2011**, and thus became winner of the 10th edition of Financial Institutions IT Leader Award 2011 organized by *Gazeta Bankowa* daily. The jury examined the central IT system solutions, IT projects aiming to enhance business operations and allowing to process financial operations by remote means of communications;
- Citi Mobile fanpage on Facebook **took first place in the ranking of statistics portal Socialbankers in the category of *response rate*.** This means that its authors response to users' posts most often among all surveyed profiles. Citi Mobile fanpage was created in 2010 for those interested in the latest mobile technologies;
- Bank kept the quotation in the **RESPECT Index**, a WSE index of most socially responsible companies. In 2012 Citi Handlowy was among 23 companies named in the fifth edition of RESPECT Index; it is one of only two banks present on the list from the first edition of the ranking;
- The Leopold Kronenberg Foundation was awarded with the **Medal of City's Mayor** in recognition of its contribution to development of Amber Museum – branch of the Gdańsk History Museum. The Foundation has supported Gdańsk Amber Museum for five years. In 2006 the Foundation awarded a grant for the purchase of "Gierłowska lizard" – Poland's only and one of two in the world natural "inclusion" of a lizard in Baltic amber. In 2011 the Foundation financed the purchase of another unique animal amber inclusion – Solifugae spider;
- DMBH was awarded for "**the highest share in session trading in shares**" by the Warsaw Stock Exchange. DMBH won this award for the third time in a row. It confirms the strong position of the brokerage house, whose market share in 2011 was 11.5%;
- Piotr Zielonka from DMBH received Parkiet daily's „**Bulls and Bears**" **Award** for the best stock analyst. Piotr Zielonka is one of only few analysts who have worked for the Polish Financial Supervision Authority (KNF). He was responsible for share turnover on the Warsaw Stock Exchange and detection of stock exchange frauds. Now he is renowned expert in construction and real estate development, also specializes in power companies.

8.2 Cultural patronage and sponsoring

In the first half of 2012 the Bank sponsored several domestic and international conferences. It was a partner of the **4th European Economic Congress in Katowice** (14-16 May 2012) and the **Lewiatan Awards Ceremony**, held on 23 May 2012 in the Warsaw National Philharmonic. It also remained the cultural patron of an exhibition entitled "**Stanisław August, the Last King of Poland**. **Politician, Patron, Reformer 1764-1795**" opened in the previous year in the Royal Castle in Warsaw.

8.3 Social responsibility

The social responsibility mission is coordinated by the Kronenberg Foundation that acts on behalf of the Bank in support of work for the common good. In the first half of 2012 the activities of the Foundation were focused on financial education, protection of the national cultural heritage and coordination of voluntary activities performed by employees of the Bank for those in need.

Implementation of particular programs:

- **From Penny to Pound** (*Od grosika do złotówki*) – the first such program in Poland focused on financial education and targeted at primary school students, implemented under integrated teaching. The program is carried out by teachers and volunteer workers from the Bank, and supported by the parents. It is implemented in cooperation with the Foundation of Entrepreneurship of Young People (Fundacja Młodzieżowej Przedsiębiorczości). From January to June 2012, 671 teachers and around 21,000 parents were introducing over 14,200 students in the world of finance;
- **My Finances (Moje finanse)** – the largest financial education program for the youths in Poland. Due to its scope, it meets social demand for financial education and gives an opportunity for a more educated society who consciously manages its finances by saving, borrowing and investing. The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Foundation of Entrepreneurship of Young People. Its direct recipients are teachers

and students of higher secondary schools throughout the country. During the school year 2011/2012 (from January to June 2012), over 141,000 students participated in the program implemented by 1,600 teachers;

- **Banks in Action – Enterprise Day** (*Banki w akcji - Dzień Przedsiębiorczości*) – one-day traineeship in a bank under Polish national campaign "Enterprise Day". Under the tutelage of bank employees, school students familiarize with the specific nature of particular jobs, join in the performance of tasks, and learn what education, skills and capabilities are required for these jobs. In spring 2012 Citi Handlowy hosted 265 students across Poland;

- **From Class to Cash** (*Z klasy do kasy*) is a program addressed to students of lower and upper secondary schools, carried out together with the National Bank of Poland and Gazeta Wyborcza daily. Its main idea is to familiarize young people with the essentials of capital market instruments and the principles of stock exchange. Students participating in the program use a simple and intuitive application to make investments on a virtual market based on real Warsaw Stock Exchange quotations. In spring 2012 the investment game contest was carried out. The contending teams, each consisting of three to five students representing one school, were to invest virtual PLN 100,000 the most profitably. 27,000 students entered the contest. The team from Gimnazjum No. 6 in Koszalin was the winner;

- **Building Financial Independence of Women** – a pilot project for socially excluded women. Its main objective is to improve the financial standing of abused women, improving their chances for leaving a violent relationship and improving the chances of girls from socially excluded families for a better and independent life. The program is implemented in cooperation with the Women's Rights Center. The pilot project is attended by 300 women and girls;

- **Business Startup Program** is a pilot project of a national program targeted at the academic community. Its objective is to stimulate entrepreneurship of students and graduates, and to help them open a business. The program is implemented in cooperation with Academic Business Incubators. The pilot project is attended by 1,500 young people;

- **Micro-entrepreneur of the Year 2012** – a contest for micro enterprise owners. The purpose of the contest is to promote micro companies that are one of the basic forms of business activity in Poland. The idea is to reward successful, above-average companies that are rooted in local societies and combine tradition with modernity. Thanks to promotional activities carried out in the first half of 2012 the 8th edition of the contest had 217 submissions. The contest will be adjudicated in September 2012;

- **Award of Bank Handlowy w Warszawie S.A.** for outstanding contribution to development of economics and finance – this competition aims to promote the most valuable publications devoted to the theory of economy and finance, and the award is the most prestigious Polish recognition in that field. The 17th edition of the competition had 22 submissions. Awards ceremony will be held in October 2012. It will be combined with economic conference, during which the invited guests will discuss critical problems of the Polish economy and economic policy based on the research achievements of the competition winner;

- **Professor Aleksander Gieysztor Award** – the most prestigious award for the protection of the national cultural heritage, given annually to institutions or private individuals. The winner of the 13th edition was professor Norman Davies, recognized for his lifetime contribution to promoting Polish cultural heritage abroad, as well as his profound and critical studies showing links between the cultural heritage of Poland and other countries of Central and Eastern Europe with the heritage of of the entire continent. The award ceremony was held on 9 February 2012;

- **Art recovery** – the aim of this new program is to recover works of art from Polish collections lost during, and as a result of, the Second World War. Under this program, in March 2012, Kronenberg Foundation jointly with the Ministry of Culture and National Heritage and the National Museum in Warsaw recovered the lost painting *Negress* by Anna Bilińska-Bohdanowiczowa. The painting was added to the National Museum collection. On 18 June 2012 the Kronenberg Foundation and the Ministry of Culture and National Heritage signed a letter of intent specifying the terms of cooperation on this program. It is worth emphasizing that this is **the first long-term cooperation of such type between the Ministry and a non-governmental institution**;

- **Roots** (*Korzenie*) – is a program under which the Foundation revives the history of Bank Handlowy, the life and achievements of its founders – the Kronenbergs. In the first half of 2012 the Foundation continued searching and digitalizing documents on the history of the Bank. By the end of 2012, over

25,000 pages of documents will have been scanned under this program and the concept of the website-to-be dedicated to the history of the Bank and the Kronenbergs will have been developed. The Foundation also began preparing for the conference "European Association for Banking and Financial History" to be held in 2013 in Warsaw;

- **Employee Volunteer Program in Citi Handlowy** – the program that aims to assist the Bank employees in developing their social responsibility and involvement. Its main pillars include: Citi's Global Community Day, engagement of employees of the Bank in financial education and a voluntary work project executed in the course of company integration trips. The employees provide their services on an individual or group basis. In the first half of 2012 over 1,000 volunteers implemented 135 projects. The key initiative was the 7th edition of the Citi's Global Community Day during which 1,000 volunteers of Citi Handlowy with friends and family members implemented 126 projects targeted at 14,000 persons in need from 13 voivodeships in Poland;
- **Grant Program** – is a contest through which the Foundation supports the most valuable projects carried out by non-profit organizations in the area of education and local development. During the first half of 2012, 14 grants were given for the total of PLN 484,800, including PLN 144,500 for six grants for local projects recommended by branch directors. The grants were given in the following areas: innovations in education (4 grants of PLN 118,100), cultural heritage and traditions (4 grants of PLN 144,600), economic education (5 grants of PLN 152,000) and social policy (1 grant of PLN 70,000).
- **More trees thanks to You** *(Więcej drzew dzięki Tobie)* program – its purpose is to promote "green" habits and encourage customers of the Bank to quit paper account or credit card statements. As part of the program Citi Handlowy planted one tree on behalf of each customer who decided to switch to electronic statements. It is implemented by the Bank in cooperation with the Leopold Kronenberg Foundation and Nature Protection League. In 2012, 100,000 trees were planted. In addition, over 20 volunteers for the Bank, together with children from one of Warsaw kindergartens, participated in environmental workshop and helped them to make a garden near the kindergarten;
- **Responsible Business League (Liga Odpowiedzialnego Biznesu)** – a program responding to a growing interest in responsible business among students in Poland. It promotes CSR ideas in the academic environment, such as standards of functioning in business and life, education on responsible business practices and construction of social environment favorable for responsible business. The program is organized by the Responsible Business Forum in cooperation with the Leopold Kronenberg Foundation and public universities (University of Warsaw, Jagiellonian University, Warsaw School of Economics and other). In the 8th edition (academic year 2011/212) the program reached almost 4,000 recipients. The honorable patron of the Responsible Business League was Minister of Education, Ms. Barbara Kudrycka.

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

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

1.1 Economy and macroeconomic environment

High public debt and recession in some eurozone countries increase the concerns as regards the future situation of the European financial markets. A particular uncertainty arises from the likely exit of Greece from the eurozone, which may raise market concerns as regards the collapse of the entire eurozone. A further increase of risk aversion and concerns as regards spillover effects in other EU member states may contribute to the reduction of foreign capital inflows to Poland, and increase the depreciation pressure on the Polish currency. In particular, the FX market and debt market tensions could aggravate if the situation continues to worsen in large, "remote" economies of the eurozone.

The worsening of the economic situation in the eurozone or in China could contribute to a lower demand for Polish export products. In this scenario, the magnitude of the economic slowdown in Poland and the aggravation of the labor market situation could be deeper than expected, affecting the financial performance of companies and the situation of households.

Excess liquidity on international financial markets, arising from the asset purchase programs implemented by central banks to stimulate economic growth and to address financial markets anxiety, may lead to a substantial increase of raw material prices and keep the inflation rate at a high level. A potential dynamic price increase could lead to a reduction of real household income and consumption, while encouraging the Monetary Policy Council to increase the interest rates.

The above-described factors may affect the Group's performance in the subsequent periods.

1.2 Regulatory risk

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

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

- admissible concentration of exposure limits (Banking Law);
- maximum level of equity investments in the capital market (Banking Law);
- liquidity, solvency and credit risk standards (resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority);
- risk management at the bank (Banking Law, resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority);
- calculating and satisfying reserve requirements (NBP Act, Banking Law, resolutions of the Commission for Banking Supervision/Polish Financial Supervision Authority and resolutions of the Chairman of NBP);
- taxes and related instruments;
- Act of 7 July 2005 amending the Civil Code and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such loan;
- limits regarding extension of mortgage-secured foreign currency loans, specified in Recommendation S of the Commission for Banking Supervision;
- Act of 16 February 2007 on protection of competition and consumers;
- Act of 23 August 2007 on counteracting unfair market practices;
- Act of 16 November 2000 on combating money laundering and terrorist financing;
- Act of 29 July 2001 on consumer loan;
- Act of 12 May 2011 on consumer loan;
- Act of 19 August 2011 on payment services;
- limits regarding extension of mortgage-secured foreign currency loans, specified in Recommendation S(II) of the Polish Financial Supervision Authority;
- Recommendation T of the Polish Financial Supervision Authority on good management practice concerning risk of retail credit exposure;
- Recommendation I of the Polish Financial Supervision Authority on management of foreign exchange risk in banks and rules of performing transactions subject to foreign exchange risk by banks.

Due to the failure to implement Directive 2007/64/EC of 13 November 2007 on payment services in the internal market (PSD) within the required timeline, i.e. until 1 November 2009, the process of adapting operating activities of the entities covered by PSD was not completed in accordance with the European Union requirements. The Parliament resolved an act on payment services on 19 August 2011, which became effective on 24 October 2011 and provided for a 12-month adapting period. The Bank is adjusting to the requirements of the new regulation.

Regulation of the European Parliament and of the European Council on over-the-counter (OTC) derivatives, central counterparties and trade repositories (EMIR) will come into force on 1 January 2013. Due to the legal nature of the instrument (regulation), it does not require implementation to become effective in Poland and its provisions will apply directly. EMIR provides that particular OTC transactions shall be mandatorily cleared through dedicated entities – central clearing counterparties. The OTC transactions that are not subject to the central clearing obligation shall be subject to additional requirements strengthening the trading safety (obligation to secure transactions). In accordance with EMIR, all OTC transactions shall be reported to trade repositories. On 25 June 2012 the European Securities and Markets Authority (ESMA) published a consultation document on the detailed rules and requirements for clearing OTC transactions and reporting them to trade repositories. Their final shape will determine the scope of the above mentioned obligations for the Bank, and hence the consequences of the entry into force of EMIR for its operations.

1.3 Competition within the banking sector

Due to the changes in the macroeconomic environment and regulatory restrictions imposed on the banking sector, as well as increasing use of banking services by Poles, the competition within banking sector continues to grow. In addition, economic problems of developed economies make global banks look for sources of performance improvement in emerging markets. The situation of the Polish economy in comparison with other countries in the region makes the Polish banking sector attractive to international financial institutions.

To operate effectively in such a competitive market, the Group undertakes a number of initiatives to increase attractiveness of the offered services, focusing especially on the areas in which it has a significant competitive advantage. These initiatives concern mainly the credit card market and high-net-worth customer service, while in Commercial Bank – service of global companies and the largest domestic enterprises. FX market, transaction services, custody of securities and institutional brokerage are also important areas.

Innovation and top quality of service are the key success factors of the strategy adopted by the Bank. By constantly expanding the range of products and services with innovative solutions, fully meeting the needs and expectations of customers, the Bank is able to effectively compete in the financial services market.

Maintaining high liquidity and capital adequacy, the Bank is prepared to operate in that competitive environment and plans to actively acquire customers from both consumer and commercial banking segments.

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

2.1 Liquidity risk

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

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

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

The Bank's deposit base is stable and diversified. Moreover, the Bank has a large portfolio of liquid securities, good access to interbank market funding and adequate capital. The liquidity risk level during the first half of 2012 was low.

2.2 Foreign exchange risk

The Bank performs foreign exchange transactions both on behalf of its customers and for its own account, and holds open FX positions within the established limits. As a result, the Bank is exposed to exchange rate risk and it is uncertain whether future movements in exchange rates will or will not have an adverse effect on the Bank's financial condition. The control over foreign exchange risk is the responsibility of the Market Risk, which cooperates in this area with the Treasury responsible for managing liquidity and currency position. During the first half of 2012, the market risk of Bank's own positions was low.

2.3 Interest rate risk

As is the case with other Polish banks, the Bank is exposed to a mismatch risk arising from timing of changes in interest rates on its assets and the underlying liabilities (revaluation gap risk), as well as the risk that debt securities and interest rate based derivatives may be sensitive to market interest rate fluctuations (pricing risk). In terms of revaluation gap risk, interest rate risk may arise where it proves impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. Similarly, this risk also occurs when a rise in deposit rates cannot be offset by a corresponding rise in lending rates. As far as pricing risk is concerned, interest rate risk may occur in situations where changes in the market interest rates adversely affect the trading portfolio valuation and in consequence the Bank's financial result, as well as the valuation of the portfolio of securities available for sale and in consequence the value of the Bank's equity. Management of interest rate risk is one of the functions of the Bank's Assets and Liabilities Committee, which – among other things – develops the Bank's pricing policies regarding interest rate risk. The interest rate risk level during the first half of 2012 was medium to high for trading portfolios and medium to high for banking portfolios.

2.4 Credit risk

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

2.5 Equity investment risk

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

2.6 Operating risk

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

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

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

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

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

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

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

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

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

2.7 Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund (Act on BGF; legal status as at 30 June 2012), the Bank is included in a mandatory deposit insurance scheme for bank accounts and receivables confirmed with Bank documents. The banks included in the scheme are required to make specific contributions to the Bank Guarantee Fund, in accordance with Article 13 of Act on BGF, and to invest and deposit assets to the guaranteed deposits insurance fund created by the Bank in accordance with Article 26 of the Act on BGF.

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

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

1. General objectives for the Group development

Due to significant changes in the environment, pertaining mainly to the debt crisis in the eurozone countries and regulatory changes in the banking sector (including e.g. Basel III, Recommendation T and amendments to Recommendation S) it was necessary to revise assumptions made in the adopted Strategy of Bank Handlowy w Warszawie S.A. for the years 2010-2012 and develop a new strategy considering new market conditions and longer timeframe.

In the first half of 2012 the Bank adopted the Strategy for the years 2012-2015. It is based on the existing four pillars: account segmentation, business model, quality and innovation, and effectiveness.

Effective management of costs and capital as well as liquidity are key priorities of the Group. Focusing on improvement of effectiveness, the Bank reorganizes its branch network and distribution model. The reorganization involves concentration of the outlet network within large conurbation and focusing on effective sales of banking products through remote channels by increased investment in technology development. The Bank will focus on effectiveness initiatives also in other areas. Actions taken during the period of strategy should translate into reduction of the cost-to-income ratio to about 50%.

Focusing on acquiring operating accounts remains the priority to both Corporate and Commercial Bank and Consumer Bank. In Consumer Bank emphasis will be put on high-net-worth customer segments, while for Corporate and Commercial Bank acquisition of new SME clients (mainly medium ones) will be important.

The Group's main objective is to systematically increase the Bank's value by ensuring growth of operational efficiency and exploiting the competitive advantage stemming from strong capital adequacy and high liquidity guaranteeing security of the customers and retention of their trust.

1.1 Corporate and Commercial Bank

The Bank is the leading service provider to the international corporations and largest local companies. To maintain its market position the Bank plans to acquire new clients, deepen customer relations in targeted industries and assist clients in regional and cross-border expansion (*Emerging Market Champions* initiative). The Bank plans to keep its leading position on the FX market, market of financial management products and institutional brokerage.

The Bank's objective is to achieve better efficiency by improving processes, focusing on innovation and improving service quality. As regards transaction services, the Bank will continue developing its range of products for corporate clients to support client acquisition by opening new operating accounts and maximizing its share in portfolio of the current clients. Trade finance products will play a significant role in acquisition of new clients, with cross-selling options in the area of financial management. The Bank's objective is to implement the most innovative solutions in the Polish market. Shortening the cycle of innovative solutions provision is one of the tasks of Bank Product Research and Development Center, established in 2011. It is the first research unit in the Polish banking sector. Citi Handlowy Research and Development Center supports transaction services by performing business analyses, conducting technological research and developing new solutions. In immediate future the Center will be involved in development of remote service channels, implementation of an electronic signature to the processes of the Bank, and implementation of new digital solutions.

1.2 Brokerage

The main clients of DMBH are institutional and foreign investors, therefore their investment activity determines brokerage activities of DMBH.

The performance of DMBH is largely determined by the activity of institutional investors who, in turn, are directly dependent on new capital inflows and on the situation on the domestic stock market. Reduced transfers of funds to open pension funds should not substantially affect the demand for shares from those institutions, due to the higher exposure limits for equity instruments. In view of the expected higher supply from the State Treasury, investors may put their share purchase decisions on hold in the short term, however in the longer term, the increased numbers of shares in free float should boost their activity.

1.3 Consumer Bank

In credit products, the Bank will continue developing its credit card range. The main goal in this area is to maintain the leading position in the market in terms of credit card use, also by constant development of partner and rebate programs as well as other measurable benefits for credit card holders. Attractive product offer will be addressed both to new and present credit card clients.

In cash loans, the Bank will strive to stabilize credit balance mainly through active sales processes. Relations with present and new Consumer Bank clients will invariably be strengthened through mortgage products whose attractiveness for the client will be connected with his/her overall involvements in cooperation with the consumer area of the Bank.

In deposit products, the Bank will continue its strategy based on acquiring active personal accounts, while it will focus on high-net-worth customer segments. The acquisition and portfolio activities in this area of Consumer Bank will be supported by a wide range of products and services in the form of special privileges.

Small enterprises segment will continue to be a strategic element of development. The product range will be developed and sales and customer service processes will be further improved to maintain a dynamic growth of the portfolio of active clients within this segment. At the same time fast development in this area is to support acquisition of new active personal relations.

Activation and acquisition will be supported by development of innovative services, in particular by expanded functionality of mobile banking and contactless payments.

The quality of products and services offered to clients as well as their cost effectiveness will inevitably be subject to control by the Consumer Bank.

VIII. Investor information

1. The Bank's shareholding structure and performance of its shares on the Warsaw Stock Exchange

1.1 Shareholding structure

The only shareholder of the Bank that holds at least 5% of the authorized capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to Citigroup focused on foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. During the first half of 2012, the number of shares held by COIC as well as its share in the authorized capital and the total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively.

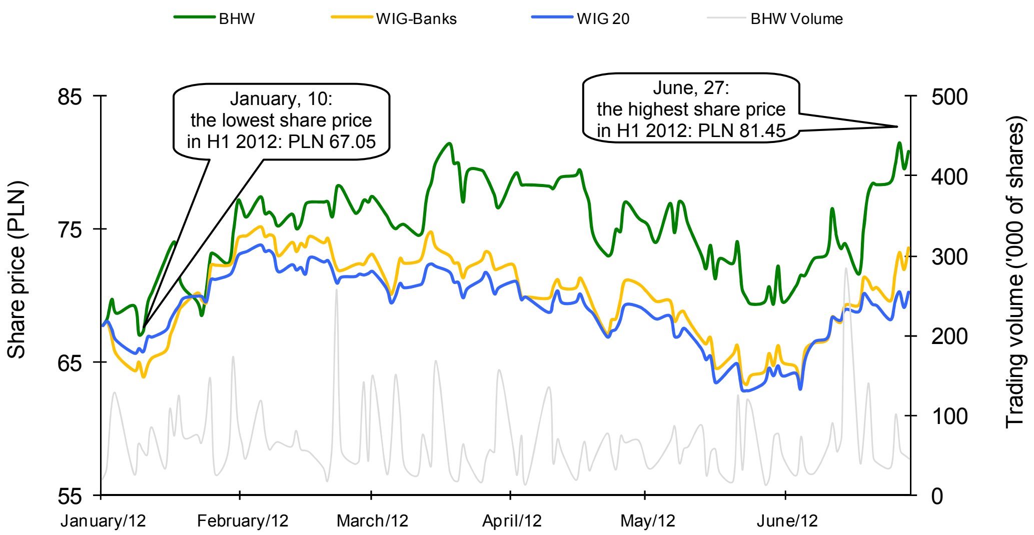
The position of Bank Handlowy w Warszawie S.A. within Citigroup structure is shown in the diagram below:

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

1.2 Bank's share listings in the Warsaw Stock Exchange

The price of one share of the Bank as at the end of the first half of 2012 was PLN 80.8, which means a double digit growth since the beginning of 2012 (increase by 19.3% from PLN 67.8 as at 2 January 2012). During this period the main WSE indices also showed gains, but they were lower (WIG-Banks: +8.6%, WIG: +6.5%, WIG20: +3.7%). The top rate of one share of the Bank in the first half of 2012 was PLN 81.5 (recorded on 27 June 2012). In annual terms, the Bank's share price went down by 7.1%. The main indices also saw decreases as compared to the first half of 2011: WIG-Banks: -11.5%, WIG: -15.7%, WIG20: -18.8%.

Bank ("BHW") share price and trading volume vs. WIG-Banks and WIG20 market indices rebased (02/01/2012 = 68.7)



At the end of June 2012 capitalization of the Bank was PLN 10.6 billion (compared to PLN 8.9 billion as at 2 January 2012 and PLN 11.4 billion at the end of the first half of 2011). At the end of June 2012 stock ratios were as follows: P/E – 13.2 (compared to 12.5 as at 2 January 2012 and 14.5 at the end of the first half of 2011), P/BV – 1.6 (compared to 1.4 as at 2 January 2012 and 1.7 at the end of June 2011).

The average price of one share of the Bank in the first half of 2012 was PLN 74.98 and the average daily turnover in shares of the Bank was over 68,000.

2. Dividend

On 20 June 2012 the Ordinary General Meeting resolved to allocate 50.0% of net profit for 2011 for dividend payment, translating to a dividend per share of PLN 2.76.

The table below presents the dividend history since 1997, i.e. since the Bank's debut on the WSE.

Financial year	Dividend (PLN)	Net profit per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%

Financial year	Dividend (PLN)	Net profit per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%

**Dividend payout ratio for 2004 – 100%, plus prior year profits.*
*** On 18 June 2009 the Ordinary General Meeting resolved no dividend for 2008.*

3. Rating

The Bank is fully rated by international rating agencies: Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). Furthermore, Standard & Poor's provides a free-of-charge rating service, i.e. unsolicited rating, on the basis of publicly available information.

In the first half of 2012 the following changes were made in the Moody's rating:

- on 21 February 2012, Moody's placed the long-term and short-term local and foreign currency deposit ratings under review for downgrade. Previously, the outlook on these ratings was negative. The Bank's financial strength rating was confirmed at "D+" with the negative outlook. The above change was a consequence of placing ratings of Citigroup, the strategic shareholder of the Bank, under review for downgrade according to the Moody's report of 15 February 2012;
- on 22 June 2012, Moody's lowered the Bank's long-term rating from "Baa1" to "Baa3", and the short-term rating from "Prime-2" to "Prime-3". The outlook on the ratings is stable. The change of ratings was a consequence of the changed rating of Citibank N.A., the Bank's strategic shareholder. Citibank N.A. financial strength rating was lowered from "C-/baa1" to "D+/ baa3", i.e. to the same level as the financial strength rating of the Bank. The Citibank N.A.'s rating was changed on 21 June 2012. At the same time, the Bank's financial strength rating ("BFSR") was confirmed at "D+", while the outlook on the rating was changed from negative to stable. According to Moody's, the outlook change to stable reflects the high profitability of the Bank over the last three years, its strong and growing capital base, and the low credit to deposit ratio.

At 30 June 2012, Moody's rated the Bank as follows:

Long-term local currency deposit rating	Baa3
Long-term foreign currency deposit rating	Baa3
Short-term local currency deposit rating	Prime-3
Short-term foreign currency deposit rating	Prime-3
Bank's Financial Strength Rating (BFSR)	D+
Outlook on BFSR	*Stable*
Outlook on long-term and short-term local currency and foreign currency deposit ratings	*Stable*

In the first half of 2012, the ratings from Fitch did not change (ratings were confirmed at the same levels on 14 June 2012). As at the end of the first six months of 2012, the following Fitch ratings were applicable:

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

** Viability rating is the view of the intrinsic creditworthiness of an institution, independent of external factors.*

The Standard & Poor's rating (developed on the basis of publicly available information) remained unchanged in the first half of 2012 at "BBBpi" (rating confirmed on 13 December 2011).

4. Investor Relations in the Bank

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

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

IX. Best practice and management principles

1. Best practice at the Bank

Since 2003 the Bank follows the corporate governance principles adopted by the Warsaw Stock Exchange in form of the Code of Best Practice for Public Companies 2005 and since 1 January 2008 in form of the Code of Best Practice for WSE Listed Companies; in case of the latter document the governing bodies of the Bank – after the repeal of the principle IV. 8 – made a provision that two principles (II.3 and III.9) are presently not applicable to the Bank's situation. The main purpose of adopting corporate governance principles as a standard for operations of the Bank is to build transparent relations between all bodies and entities involved in the Bank's operations and ensure that management of the Company and its business is performed in a proper and diligent way, ensuring loyalty to all shareholders.

The Management Board of the Bank by the resolution of 13 May 2008, and the Supervisory Board by the resolution of 20 May 2008, expressed their willingness that the Bank should follow corporate governance principles presented in the Code of Best Practice for WSE Listed Companies, except for the following three principles:

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

(ii) Principle IV.8 regarding replacing the entity authorized to audit the financial statement at least once in 7 business years (repealed on 1 July 2010);

On 19 May 2010, the Warsaw Stock Exchange made amendments in the Code of Best Practice for WSE Listed Companies, including the repeal of principle IV.8. The Code was adapted to the latest changes in the law, current international trends in corporate governance, and expectations of market participants. Changes in the Code of Best Practice came into force on 1 July 2010.

Through its resolution of 20 July 2010, having reviewed the changes in the Code of Best Practice for WSE Listed Companies, the Management Board decided to declare its willingness to follow the corporate governance principles included in the amendment to the Code of Best Practice for WSE Listed Companies and present those changes to the Supervisory Board and recommend to the Supervisory Board a resolution concerning Bank's compliance with the amended rules. For other areas of corporate governance, the Management Board of the Bank decided to uphold its declaration expressed in the letter of the Management Board of 13 May 2008. On 6 August 2010 the Supervisory Board passed a resolution concerning corporate governance principles included in the amendment to the Code of Best Practice, adopting the recommendation of the Management Board.

Subsequent changes to the Code of Best Practice for WSE Listed Companies were made by Resolution No. 15/1282/2011 of 31 August 2011 and by Resolution No. 20/1287/2011 of 19 October 2011 of the Supervisory Board of the Warsaw Stock Exchange, which came into force on 1 January 2012. The Stock

Exchange explained that these changes concern mainly the elements of information governance in public companies and respond to new trends, which are often the result of searching of effective solutions for phenomena and events that go beyond the provisions of the current law. As in the previous case, by its resolution of 10 January 2012, having reviewed the changes, the Management Board decided to declare its willingness to follow the corporate governance principles included in the changes to the Code of Best Practice for WSE Listed Companies and present those changes to the Supervisory Board and recommend to the Supervisory Board a resolution concerning Bank's compliance with the amended rules. For other areas of corporate governance, the Management Board of the Bank decided to uphold its declaration expressed in the resolution of the Management Board of 13 May 2008 and of 20 July 2010. On 6 February 2011 the Supervisory Board passed a resolution to introduce corporate governance principles included in the Code of Best Practice for WSE Listed Companies.

A separate part of reports on the activities of the Bank and Bank's Capital Group for 2011 is statement of the Management Board on applying corporate governance principles in the Bank in 2011. The statement includes information mentioned in the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-member state (Journal of Laws No. 33, item 259, as amended).

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

1.1 Transparency

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

- The Bank has been publishing its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;
- At least half of the members of the Supervisory Board, including the Chairman, are of Polish nationality, and the Supervisory Board is composed of independent members;
- As part of the Supervisory Board, Audit Committee has been established, which is composed of two independent members of the Supervisory Board, one being the Committee's Chairman;
- Salaries of the members of the Company's governing bodies are adequate to the size of the Company and reflect their scope of responsibilities;
- All important internal regulations, as well as documents and information relating to General Meetings of the Shareholders of the Bank, are available at the head office of the Bank and on its website.

1.2 Protection of minority shareholders

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

- General Meetings of the Shareholders of the Bank are always held at the head office of Bank in Warsaw,
- The Bank may organize a General Meeting in a way enabling the shareholders to participate in the General Meeting by means of electronic communication,
- Representatives of media are allowed to be present at the General Meetings of the Shareholders,

- According to the adopted practice, all important materials required for a General Meeting of the Shareholders, including draft resolutions reviewed by the Supervisory Board, are made available to the shareholders at least 14 days before the date of the General Meeting at the head office and on the website of the Bank,

- General Meeting of the Shareholders acts according to its bylaws that define in detail the rules of holding meetings and adopting resolutions,

- General Meeting of the Shareholders is attended by members of the Supervisory Board and Management Board, who give explanations and information about the Bank to other participants of the Meeting within the scope of their responsibilities,

- Members of the General Meeting of the Shareholders that object to a resolution have the right to justify their objection. In addition, each participant of the Meeting is allowed a possibility to make a written statement recorded in the minutes of the Meeting.

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

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

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

HL operates as a leasing company. The leasing industry organized in the Polish Leasing Association has only started development of best practice applicable to leasing companies. HL operates in accordance with the Commercial Companies Code. HL has a Supervisory Board despite lack of requirement to have one, in order to ensure continuous supervision of the company operations.

3. Governing bodies of the Bank

3.1 Changes in the composition of the Management Board and Supervisory Board during the first half of 2012

3.1.1 Changes in the composition of the Management Board during the first half of 2012

During the first half of 2012 the Management Board of the Bank consisted of:

Sławomir S. Sikora	President of the Management Board
Brendan Carney	Vice President of the Management Board – since 21 May 2012
Robert Daniel Massey JR	Vice President of the Management Board
Misbah Ur-Rahman – Shah	Vice President of the Management Board

Sonia Wędrychowicz-Horbatowska	Vice President of the Management Board – until 13 May 2012
Witold Zieliński	Vice President of the Management Board
Iwona Dudzińska	Member of the Management Board

Ms. Sonia Wędrychowicz-Horbatowska resigned from her function of the Vice President of the Management Board on 13 May 2012.

On 21 May 2012 the Supervisory Board of the Bank appointed Mr. Brendan Carney Vice President of the Management Board for the term of three years.

On 20 June 2012 the Supervisory Board of the Bank appointed Mr. Sławomir S. Sikora President of the Management Board for another three year term and Mr. Witold Zieliński Vice President of the Management Board for another three year term.

3.1.2 Changes in the composition of the Supervisory Board during the first half of 2012

During the first half of 2012 the Supervisory Board of the Bank consisted of:

Stanisław Sołtysiński	Chairman of the Supervisory Board - until 20 June 2012 - since 21 June 2012 - Member of the Supervisory Board
Shirish Apte	Vice Chairman of the Supervisory Board - until 20 June 2012 - since 21 June 2012 – Member of the Supervisory Board
Andrzej Olechowski	Vice Chairman of the Supervisory Board - until 20 June 2012 - since 21 June 2012 – Member of the Supervisory Board
Adnan Omar Ahmed	Member of the Supervisory Board – since 21 June 2012
Igor Chalupec	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Marc Luet	Member of the Supervisory Board
Frank Mannion	Member of the Supervisory Board
Dariusz Mioduski	Member of the Supervisory Board
Krzysztof L. Opolski	Member of the Supervisory Board
Stephen Simcock	Member of the Supervisory Board – until 20 June 2012
Wiesław A. Smulski	Member of the Supervisory Board
Alberto Verme	Member of the Supervisory Board – until 19 June 2012
Zdenek Turek	Member of the Supervisory Board – since 21 June 2012
Stephen Volk	Member of the Supervisory Board

On 19 June 2012, Mr. Alberto Verme submitted his resignation from the function of the Member of the Supervisor Board to the Chairman of the Supervisory Board.

On 20 June 2012 the Ordinary General Meeting of the Bank appointed Mr. Adnan Omar Achmed and Mr. Zdenek Turek Members of the Supervisory Board for the term of three years and the following persons for another three year term:

Mr. Shirish Apte

Mr. Igor Chalupec

Mr. Mirosław Gryszka

Mr. Andrzej Olechowski

Mr. Stanisław Sołtysiński

The term of appointment of Mr. Stephan Simcock, a Member of the Supervisory Board, expired by operation of law.

On 23 July 2012, Mr. Andrzej Olechowski was appointed to the function of the Chairman of the Supervisory Board and Mr. Shirish Apte was appointed to the function of the Vice Chairman of the Supervisory Board.

3.2 Rules of appointing and dismissing members of the Management Board

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

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

3.3 Rights of the Management Board members

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

Through a resolution, the Management Board:

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

12) formulates decisions regarding distribution of profit or coverage or losses,

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

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

15) approves of the employment structure,

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

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

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

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

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

4. Other principles

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

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

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

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

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

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

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

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2012	Number of shares as at the day of submitting the previous quarterly interim report for Q2 of 2012
Iwona Dudzińska	Member	600	600
Andrzej Olechowski	Vice Chairman of the Supervisory Board	1,200	1,200
Total		**1,800**	**1,800**

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

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

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

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

3. Management principles

During the first half of 2012, no changes in the management principles were made. The management principles are outlined in the Note to the Interim Condensed Consolidated Financial Statement of the Capital Group of Bank.

XI. Management Board's representations

True and fair financial statements

To the best knowledge of the Management Board of the Bank, composed of Mr. Sławomir S. Sikora – President, Mr. Brendan Carney – Vice President, Mr. Robert Daniel Massey JR – Vice President, Mr. Misbah Ur-Rahman-Shah – Vice President, Mr. Witold Zieliński – Vice President and Ms. Iwona Dudzińska – Member, semi-annual financial data and comparative data presented in the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2012" and "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2012" were prepared in accordance with the principles of accounting and give a true, fair and clear picture of financial standing and financial position of the Bank and the Group as well as financial performance of the Bank and the Group. The "Report an activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2012", contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2012.

Appointment of a licensed auditing firm

A licensed auditing firm – KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k., examining the Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2012" and "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2012", was appointed in accordance with applicable laws. The firm and certified auditors that performed the examination satisfied the conditions necessary for issuing an objective and independent report on those statements, in accordance with applicable laws and professional standards.

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

Signatures of Members of the Management Board

Date	Name	Position	Signature
24.08.2012	Sławomir S. Sikora	President	
24.08.2012	Brendan Carney	Vice President	
24.08.2012	Robert Daniel Massey JR	Vice President	
24.08.2012	Misbah Ur-Rahman-Shah	Vice President	
24.08.2012	Witold Zieliński	Vice President Chief Financial Officer	
24.08.2012	Iwona Dudzińska	Member	