

INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
FOR THE SECOND QUARTER 2010

AUGUST 2010

Selected financial data

	PLN '000		EUR '000***	
	Second quarter growing period from 01.01.10 to 30.06.10	Second quarter growing period from 01.01.09 to 30.06.09	Second quarter growing period from 01.01.10 to 30.06.10	Second quarter growing period from 01.01.09 to 30.06.09
Data related to summary condensed consolidated financial statements				
Interest income	989,884	1,083,824	247,211	239,869
Fee and commission income	361,863	306,319	90,371	67,794
Profit before tax	446,502	161,964	111,508	35,845
Net profit	349,370	117,558	87,251	26,018
Total income	427,728	126,301	106,820	27,953
Increase of net cash	(2,117,461)	(2,273,230)	(528,806)	(503,105)
Total assets*	40,135,962	37,633,063	9,681,114	9,160,475
Liabilities due to Central Bank*	-	980,446	-	238,656
Financial liabilities valued at amortized cost*	29,032,848	26,359,837	7,002,954	6,416,396
Shareholders' equity	6,132,407	5,756,387	1,479,185	1,287,898
Share capital	522,638	522,638	126,064	116,932
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	46.93	44.06	11.32	9.86
Capital adequacy ratio (%)*	17.27	16.71	17.27	16.71
Earnings per ordinary share (PLN / EUR)	2.67	0.90	0.67	0.20
Diluted net profit per ordinary share (PLN / EUR)	2.67	0.90	0.67	0.20
Data related to summary condensed financial statements of the Bank				
Interest income	973,917	1,053,047	243,224	233,057
Fee and commission income	323,774	284,095	80,859	62,875
Profit before tax	439,397	174,314	109,734	38,579
Net profit	345,701	130,844	86,335	28,958
Total income	423,795	137,845	105,838	30,507
Increase of net cash	(2,118,195)	(2,274,785)	(528,989)	(503,449)
Total assets*	39,146,193	36,455,439	9,442,374	8,873,823
Liabilities due to Central Bank*	-	980,446	-	238,656
Financial liabilities valued at amortized cost*	28,511,886	25,761,339	6,877,294	6,270,712
Shareholders' equity	6,063,387	5,681,628	1,462,537	1,271,171
Share capital	522,638	522,638	126,064	116,932
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	46.41	43.48	11.19	9.73
Capital adequacy ratio (%)*	17.18	16.76	17.18	16.76
Earnings per ordinary share (PLN / EUR)	2.65	1.00	0.66	0.22
Diluted net profit per ordinary share (PLN / EUR)	2.65	1.00	0.66	0.22
Declared or distributed dividends per ordinary share (PLN / EUR)**	3.77	-	0.91	-

* Comparable data according to balance sheet as at 31 December 2009.

** The presented ratios are related to declared dividends from the appropriation of the 2009 profit. According to the Ordinary General Meeting of 18 June 2009, in conformity with Resolution no 26a/2009, no dividend from 2008 profit has been paid.

*** The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet - NBP mid exchange rate as at 30 June 2010 - PLN 4.1458 (as at 31 December 2009: PLN 4.1082; as at 30 June 2009 - PLN 4.4696); for the income statement and cash flow- the arithmetic average of NBP end of month exchange rates in first and second quarters 2010 - PLN 4.0042 (in first and second quarters 2009: PLN 4.5184).

CONTENTS

<i>Condensed consolidated income statement</i>	4
<i>Condensed consolidated statement of comprehensive income</i>	5
<i>Condensed consolidated balance sheet</i>	6
<i>Condensed consolidated statement of changes in equity</i>	7
<i>Condensed consolidated statement of cash flows</i>	8
<i>Supplementary notes to the condensed consolidated financial statements</i>	8
1. General information about the Bank and Capital Group of the Bank	8
2. Conformity statement	9
3. Principles accepted at composition of report	9
4. Macroeconomic trends and conditions prevailing in money, FX and capital markets	9
5. Banking sector	12
6. Financial analysis of the Group's Results	12
7. Segmental reporting	17
8. Activities of the Group	19
9. Seasonality or cyclical nature of business activity	34
10. Issue, buyout and repayment of debt and equity securities	34
11. Paid or declared dividends	34
12. Changes in the Group's structure	34
13. Major events after the balance sheet date not included in the financial statements	34
14. Movements in off-balance sheet commitments	34
15. Achievement of 2010 forecast results	35
16. Information about shareholders	35
17. Ownership of issuer's shares by managing and supervising officers	36
18. Information on pending proceedings	36
19. Information about significant transactions with related entities which were deal on other than market terms	37
20. Information about guarantee agreements	37
21. Other important information	37
22. Description of factors and events that might affect the Group's future financial performance	38
<i>Summary interim financial statements of the Bank for second quarter 2010</i>	39

Condensed consolidated income statement

<i>PLN '000</i>	Second quarter period from 01.04.10 to 30.06.10	Second quarter growing period from 01.01.10 to 30.06.10	Second quarter period from 01.04.09 to 30.06.09	Second quarter growing period from 01.01.09 to 30.06.09
Interest and similar income	493,098	989,884	533,009	1,083,824
Interest expense and similar charges	(118,867)	(243,022)	(149,446)	(309,846)
Net interest income	374,231	746,862	383,563	773,978
Fee and commission income	188,662	361,863	156,962	306,319
Fee and commission expense	(22,595)	(45,017)	(25,495)	(49,512)
Net fee and commission income	166,067	316,846	131,467	256,807
Dividend income	5,835	5,846	5,913	5,925
Net income on financial instruments and revaluation	99,766	156,645	74,969	114,577
Net gain on investment debt securities	35,732	57,692	15,353	35,245
Net gain on investment (capital) instruments	-	2,516	1,997	3,437
Other operating income	16,507	35,436	19,325	48,251
Other operating expenses	(8,714)	(32,185)	(5,517)	(17,833)
Net other operating income	7,793	3,251	13,808	30,418
General administrative expenses	(335,063)	(644,061)	(331,714)	(684,280)
Depreciation expense	(15,598)	(32,537)	(21,114)	(42,840)
Profit / (loss) on sale of tangible fixed assets	(95)	(217)	720	2,202
Net impairment losses	(88,829)	(166,183)	(180,503)	(332,996)
Operating income	249,839	446,660	94,459	162,473
Share in profits / (losses) of undertakings accounted for under the equity method	(36)	(158)	731	(509)
Profit before tax	249,803	446,502	95,190	161,964
Income tax expense	(51,366)	(97,132)	(23,785)	(44,406)
Net profit	198,437	349,370	71,405	117,558
Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Net profit per ordinary share (in PLN)		2.67		0.90
Diluted net profit per ordinary share (in PLN)		2.67		0.90
Including:				
Net profit due to shareholders of dominant entity		349,370		117,558
Net profit due to minority shareholders		-		-

Condensed consolidated statement of comprehensive income

<i>PLN '000</i>	Second quarter period from 01/04/10 to 30/06/10	Second quarter growing Period from 01/01/10 to 30/06/10	Second quarter period from 01/04/09 to 30/06/09	Second quarter growing period from 01/01/09 to 30/06/09
Net income	198,437	349,370	71,405	117,558
Other comprehensive income:				
Valuation of financial assets available for sale (net)	(53,627)	78,094	43,695	7,001
Difference in exchange rates	2,051	264	(1,477)	1,742
Other comprehensive income after tax	(51,576)	78,358	42,218	8,743
Total income	146,861	427,728	113,623	126,301
Including:				
Comprehensive income due to shareholders of dominant entity		427,728		126,301
Comprehensive income due to minority shareholders		-		-

Condensed consolidated balance sheet

	State as at	30.06.2010	31.12.2009
PLN '000			
ASSETS			
Cash and balances with Central Bank		1,366,986	4,113,355
Financial assets held-for-trading		4,913,229	5,397,125
Debt securities available-for-sale		17,402,931	8,290,225
Equity investments valued at equity method		55,510	56,895
Other equity investments		23,744	24,140
Loans and advances		13,583,453	16,777,255
<i>to financial sector</i>		2,101,396	4,802,562
<i>to non-financial sector</i>		11,482,057	11,974,693
Property and equipment		489,572	505,192
<i>land, buildings and equipment</i>		471,264	486,884
<i>investment property</i>		18,308	18,308
Intangible assets		1,279,240	1,282,574
Deferred income tax assets		372,504	476,372
<i>current</i>		4,564	97,657
<i>deferred</i>		367,940	378,715
Other assets		635,893	690,384
Non-current assets held-for-sale		12,900	19,546
Total assets		40,135,962	37,633,063
LIABILITIES			
Liabilities due to Central Bank		-	980,446
Financial liabilities held-for-trading		3,376,173	3,108,493
Financial liabilities valued at amortized cost		29,032,848	26,359,837
<i>deposits, from</i>		27,195,092	25,307,218
<i>financial sector</i>		6,020,954	4,735,260
<i>non-financial sector</i>		21,174,138	20,571,958
<i>other liabilities</i>		1,837,756	1,052,619
Provisions		25,596	49,390
Income tax liabilities		47,644	-
Other liabilities		1,521,294	935,508
Total liabilities		34,003,555	31,433,674
EQUITY			
Issued capital		522,638	522,638
Share premium		3,031,149	3,030,546
Revaluation reserve		(2,932)	(81,026)
Other reserves		2,251,704	2,225,712
Retained earnings		329,848	501,519
Total equity		6,132,407	6,199,389
Total liabilities and equity		40,135,962	37,633,063

Condensed consolidated statement of changes in equity

<i>PLN '000</i>	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Minority share	Total equity
Balance as at 1 January 2010	522,638	3,030,546	(81,026)	2,225,712	501,519	-	6,199,389
Total income	-	-	78,094	264	349,370	-	427,728
Valuation of capital rewards program, including:	-	-	-	(2,123)	-	-	(2,123)
- valuation change	-	-	-	(1,345)	-	-	(1,345)
- income tax respite	-	-	-	(778)	-	-	(778)
Dividends to be paid	-	-	-	-	(492,587)	-	(492,587)
Transfer to capitals	-	603	-	27,851	(28,454)	-	-
State as at 30 June 2010	522,638	3,031,149	(2,932)	2,251,704	329,848	-	6,132,407

<i>PLN '000</i>	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non controlling interest	Total equity
Balance as at 1 January 2009	522,638	3,029,703	(144,110)	1,627,692	589,886	-	5,625,809
Total income	-	-	7,001	1,742	117,558	-	126,301
Valuation of capital rewards program, including:	-	-	-	4,333	-	-	4,333
- valuation change	-	-	-	5,704	-	-	5,704
- income tax respite	-	-	-	(1,371)	-	-	(1,371)
Dividends to be paid	-	-	-	-	(56)	-	(56)
Transfer to capitals	-	843	-	591,868	(592,711)	-	-
State as at 30 June 2009	522,638	3,030,546	(137,109)	2,225,635	114,677	-	5,756,387

<i>PLN '000</i>	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non controlling interest	Total equity
Balance as at 1 January 2009	522,638	3,029,703	(144,110)	1,627,692	589,886	-	5,625,809
Total incomes	-	-	63,084	(785)	504,399	-	566,698
Valuation of capital rewards program, including:	-	-	-	6,937	-	-	6,937
- valuation change	-	-	-	8,917	-	-	8,917
- income tax respite	-	-	-	(1,980)	-	-	(1,980)
Dividend paid	-	-	-	-	(55)	-	(55)
Transfer on capital	-	843	-	591,868	(592,711)	-	-
State as at 31 December 2009	522,638	3,030,546	(81,026)	2,225,712	501,519	-	6,199,389

Condensed consolidated statement of cash flows

PLN '000

	Second quarter growing period from 01.01.10 to 30.06.10	Second quarter growing period from 01.01.09 to 30.06.09
Cash at the beginning of reporting period	4,133,391	3,607,530
Cash flows from operating activities	(1,975,933)	(2,084,541)
Cash flows from investing activities	(8,070)	(9,970)
Cash flows from financing activities	(133,458)	(178,719)
Cash at the end of reporting period	2,015,930	1,334,300
Increase / (decrease) in net cash	(2,117,461)	(2,273,230)

Supplementary notes to the condensed consolidated financial statements**1. General information about the Bank and Capital Group of the Bank**

This interim consolidated report shows the results of operations of the Capital Group of Bank Handlowy w Warszawie S.A. ("the Group"), composed of Bank Handlowy w Warszawie S.A. ("the Bank") as the parent and its subordinated entities.

Bank Handlowy w Warszawie S.A. has its registered office in Warsaw at ul. Senatorska 16, 00-923 Warszawa. The Bank was founded on the strength of a Notarial Deed of 13 April 1870 and is registered in the Register of Entrepreneurs in the National Court Register maintained by the District Court for Warsaw, XII Commercial Department in Warsaw, under KRS number 0000001538.

The Bank was given REGON number: 000013037 and tax identification number – NIP: 526-030-02-91.

The Bank and the Group were set up for unspecified period of time.

Issued capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with nominal value of PLN 4.00 per share. The Bank's shares are quoted at the Warsaw Stock Exchange.

The Group is a member of Citigroup Inc. Citibank Overseas Investments Corporation, a subsidiary of Citibank N.A., is the parent of the Bank.

The Bank is a universal bank that offers a wide range of banking services for individuals and corporate customers in the domestic and foreign markets. Additionally, the Group conducts the following activities through its subordinated entities:

- brokerage operations,
- lease services,
- investment operations.

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.06.2010	31.12.2009
<i>Entities fully consolidated</i>			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.06.2010	31.12.2009
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. under liquidation	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments II S.A.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A. under liquidation	Poznań	100.00	100.00

In the second quarter of 2010 there were no changes in structure of the Group's units.

2. Conformity statement

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting*, as adopted by European Union and with other applicable regulations. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the financial year ended 31 December 2009.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No. 33, item 259 with further changes) the Bank publishes the financial results for the 6 months period ended 30 June 2010 which is deemed to be the current interim financial reporting period.

3. Principles accepted at composition of report

The condensed interim consolidated financial statements of the Group for the second quarter of 2010 have been prepared in accordance with accounting principles adopted and summarized in the annual consolidated financial statements of the Group for the period ended 31 December 2009.

The condensed interim consolidated financial statements of the Group have been prepared for the period from 1 January 2010 to 30 June 2010. Comparable financial data is presented for the period from 1 January 2009 to 30 June 2009 and for Balance sheet as at 31 December 2009.

The financial statements are presented in PLN, rounded to the nearest thousand.

4. Macroeconomic trends and conditions prevailing in money, FX and capital markets

The latest data seem to confirm that the economic growth in the second quarter of 2010 maintained a relatively high pace. It is indicated by such factors as high industrial production dynamics and signs of earlier-than-expected recovery in the labour market. In the period April-May 2010 industrial production accelerated to 11.7% YOY from 9.5% YOY in the first quarter of 2010. The production performance was supported by export orders, positively influenced by recovery in the Eurozone and the weakening of the zloty. At the same time significant acceleration could be observed in the construction and assembly production, whose dynamics rose in the period April-May 2010 to 1.9% YOY from -17% YOY in the first quarter of 2010, which was the result of catching up construction stoppage caused by adverse weather conditions in the first months of the year and recovery in construction of buildings section.

In the second quarter of 2010 employment rose by 0.5% YOY compared with the decline of 1% YOY in the

first quarter of 2010, which was the first annual growth since the end of 2008. As it was accompanied by a declining unemployment rate and a decrease in the number of persons registering as unemployed in labor offices (-6% YOY), the data may be viewed as a forecast of further improvement in the job market in the coming months. However, the unstable growth outlook in the Eurozone may limit the willingness of companies to increase employment, and consequently decrease domestic labor demand. The pace of wages growth in the period April-May 2010 increased to 3.8% YOY from 2.7% YOY in the first quarter of 2010.

The lack of demand and wage pressures keeps inflation under control and ensures that it does not pose a direct threat to the inflation target over the medium term. In the second quarter CPI inflation decreased to 2.3% YOY from 3.0% YOY in the first quarter of 2010, falling below the inflation target (2.5% +/-1 percentage point) for the first time since September 2007. In the period April-June the Polish Monetary Policy Council decided to keep interest rates at a historically low level of 3.5%. In June the Council also introduced a significant change in its official statement, giving up its previous practice of signaling the balance of inflation risks, which was interpreted by the market participants as an indication of the future monetary policy direction.

The strong appreciation of the zloty to about 3.85 against the euro at the beginning of April led the NBP (National Bank of Poland) to intervene in the FX market. The subsequent global increase in risk aversion, caused mainly by the concerns over the fiscal condition of the southern Eurozone countries, contributed to significant weakening of the CEE region's currencies, including the zloty. As a result, the EUR/PLN rate at the end of June 2010 reached PLN 4.15, compared to PLN 3.86 at the end of March 2010. The USD/PLN rate surged much higher during the period, reaching PLN 3.39 at the end of the second quarter of 2010 from PLN 2.87 as the euro weakened significantly against the dollar.

The decrease in the money market rates caused by further lowering of risk premiums in the interbank market led to a decrease in FRA and IRS rates, accompanied by a drop in bond yields at the beginning of the second quarter of 2010. The decrease in interest rates was accompanied by the NBP FX intervention, which was interpreted by the market as an indication of minor inflation concerns on the part of the central bank. However, the global risk aversion increase connected with the concerns over the fiscal condition of the Eurozone periphery countries and the weakening of the zloty finally led to a significant yield increase. In the second quarter of 2010 the yields of two-year bonds grew to 4.85% at the end of July 2010 from 4.55% at the end of the first quarter of 2010, while 10-year bond yields rose to 5.94% from 5.53%. The 3M WIBOR rate decreased significantly to 3.87% at the end of June from 4.10% at the end of the first quarter of 2010.

The second quarter of 2010 brought about a considerable weakening of the sentiment in global equity markets. The concerns over the financial condition of the Eurozone countries (Greece, Spain) and Hungary, the steps to ban short selling in Germany, the intention to tax banks in the UK, as well as plans of significant budget austerities in the EU countries – all these led to increased risk aversion and translated into depression of Warsaw Stock Exchange (WSE) stock prices. In the second quarter of 2010 the worst performers were the smallest capitalization companies (sWIG plunged 11.7% QOQ), while the blue-chip index (WIG20) decreased by 9% in the same period. The mid-cap companies proved to be relatively strongest (mWIG40 lost 4.9% compared to the end of March 2010). From the sector perspective the only one with positive performance was the food sector (increase of 0.9%). Against the background of the general market the WIG-Telecommunications did well (-2.9% in the second quarter of 2010), while it is viewed as a defensive sector. The index of chemical companies, on the other hand, recorded the biggest drop. The failure of the privatization process in this sector and deteriorating company results (a slump in the fertilizer market, rising prices of raw materials) caused the WIG-Chemicals index to decrease by 12.5%.

The second quarter of 2010 saw a recovery in public offerings. 9 new entities were floated on the main floor (including two transferred from NewConnect). In the meantime four companies were delisted and as a result at the end of the first half of 2010 the Warsaw Stock Exchange listed 383 companies (including 23 foreign ones). The total value of public offerings in the second half of 2010 exceeded PLN 12.8 billion, with most of the sum generated by the public offerings of PZU and Tauron. Despite these significant public offerings, the total capitalization of domestic companies on WSE remained virtually unchanged (resulting from depression

in stock prices) compared to the end of the first quarter of 2010. (PLN 450.2 compared to PLN 449.7 at the end of March 2010). The capitalization of foreign companies, on the other hand, decreased by almost 10% to PLN 277 billion (to a large extent due to delisting of Immoeast shares).

Warsaw Stock Exchange equity market, as at 30 June 2010

Index	End of Q2 2010	Change QOQ (%)	End of Q1 2010	Change YOY (%)	End of Q2 2009
WIG	39,392.47	(7.2%)	42,446.51	29.5%	30,419.03
WIG-PL	38,533.81	(7.5%)	41,636.38	28.2%	30,052.78
WIG20	2,271.03	(9.0%)	2,495.60	21.9%	1,862.36
mWIG40	2,373.84	(4.9%)	2,496.22	34.2%	1,769.47
sWIG80	10,980.45	(11.7%)	12,429.56	17.8%	9,319.96
Sector specific sub-indices					
WIG-Banks	5,786.52	(6.0%)	6,158.17	55.7%	3,716.62
WIG-Construction	5,396.44	(8.4%)	5,894.43	5.9%	
WIG-Chemicals	3,331.14	(12.5%)	3,807.77	13.5%	2,935.30
WIG-Developers	2,628.28	(8.9%)	2,886.17	25.6%	2,092.49
WIG-Energy	3,775.17	(4.2%)	3,940.99	-	-
WIG-IT	1,160.15	(7.1%)	1,248.42	5.4%	1,100.47
WIG-Media	3,312.80	(8.2%)	3,610.00	33.7%	2,476.95
WIG-Fuel industry	2,482.82	(7.3%)	2,679.39	20.2%	2,065.02
WIG-Food industry	3,759.64	(0.9%)	3,727.62	64.1%	2,290.99

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

Volumes of trade in shares, bonds and derivative instruments on WSE in the second quarter of 2010

	Q2 2010	Change QOQ (%)	Q1 2009	Change YOY (%)	Q2 2009
Shares (PLN million)	121,680	16.4%	104,580	43.4%	84,871
Bonds (PLN million)	629	13.2%	556	(15.9%)	748
Futures contracts (thousand units)	7,858	1.2%	7,767	14.0%	6,895
Option contracts (thousand units)	328.4	(7.1%)	353.5	62.4%	202.3

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

In the second quarter of 2010 the volume of share trade on WSE was record high and amounted to over PLN 12.6 billion. It means over 43% increase compared to the same period of the previous year. An increase in the equity market investor activity was also recorded on a quarterly basis, which – measured by volume – grew by 16%.

As for the WSE debt market, the second quarter of 2010 saw a 13.2% improvement compared to the first quarter of 2010, although the level of PLN 629 million is lower than the second quarter of 2009 (PLN 748 million).

In the period April-June 2010 the total trade volume for futures contracts was over 7.8 million units and was higher both quarterly and annually (1.2% and 14% respectively).

In the second quarter of 2010 investors were less interested in option contracts compared to the first three months of the year. The trade volume of these derivative instruments was 328.4 thousand units, compared to

353.5 thousand in the first quarter of 2010. On the other hand, however, there was a large increase in volume compared to the second quarter of 2009 data (increase of as much as 62.4%).

5. Banking sector

In the second quarter of 2010 the Polish banking sector benefited from a gradual improvement in macroeconomic conditions. Compared to the previous year the performance of the banking sector was better and the liquidity situation in the interbank market stabilized. Today banks in Poland are capitally strong, they maintain capital adequacy ratios at safe levels and are able to absorb large provisions set up to cover receivables at risk. It means that the Polish banking sector has steered clear of the recent market volatility and proved its stability and full security for the clients.

The second quarter of 2010 saw growth in the value of receivables from companies by about 2% compared to the first quarter of 2010 (mainly as a consequence of increasing currency loans resulting from the weakening of the zloty by 18% against the dollar and 7% against the euro). On an annual basis, however, a drop by about 5% was recorded, and the reasons behind it included tightening of credit policies by banks and low demand for corporate loans as companies postponed their investment plans. Household receivables, on the other hand, grew during the second quarter of 2010 by about 8%, which was caused to a large extent by growth in currency mortgages spurred by the 7% appreciation of the Swiss franc. Household receivables grew by 13% YOY compared to the second quarter of 2009.

Because of postponing investments by companies and a gradual improvement in their financial condition during the last months, we have seen a significant increase in the volume of corporate deposits. At the end of June 2010 the volume of corporate deposits was over PLN 169 billion, which was an increase of 6% QOQ and about 13% YOY, while household deposits reached almost PLN 392 billion, which was an increase of 2% QOQ and 9% YOY.

6. Financial analysis of the Group's Results

▪ Balance sheet

At the end of the second quarter of 2010 total assets amounted to PLN 40.1 billion as compared with PLN 37.6 billion at the end of 2009 and increased by PLN 2.5 billion (or 7%). The biggest impact on the change had an increase of AFS debt securities portfolio (up by PLN 9.1 billion, or 110%), primarily as a effect of higher balance of cash bonds of the National Bank of Poland and higher bonds portfolio as at the end of the second quarter 2010 comparing to the end of 2009. At the same time the balance of Cash and balances with the Central Bank recorded a decrease (down by PLN 2.7 billion, or 67%), which is driven by reserve requirement management. The balance of loans, advances and other receivables recorded a decrease as well (drop by PLN 3.2 billion, or 19%). Decrease of loans to non-financial sector was driven mainly by the lower balance of corporate loans (down by PLN 0.4 billion, or 6%).

Loans and advances, net

	30.06.2010	31.12.2009	Change	
PLN '000			PLN '000	%
Loans and advances to non-financial sector				
Corporate customers*	5,992,503	6,361,327	(368,824)	(5.8%)
Individual customers, including:	5,489,554	5,613,366	(123,812)	(2.2%)
<i>Credit cards</i>	2,378,481	2,406,703	(28,222)	(1.2%)
<i>Cash loans to customers</i>	2,686,247	2,918,866	(232,619)	(8.0%)
Total	11,482,057	11,974,693	(492,636)	(4.1%)
Loans and advances to financial sector				

Banks and other monetary financial institutions	1,602,382	3,477,729	(1,875,347)	(53.9%)
Non-banking financial institutions	499,014	1,324,833	(825,819)	(62.3%)
Total	2,101,396	4,802,562	(2,701,166)	(56.2%)
Total loans and advances	13,583,453	16,777,255	(3,193,802)	(19.0%)

* Corporate customers include enterprises, public sector, public and private entities, cooperatives, individual enterprises, non-commercial institutions operating for households.

Loans and advances to non-banking sector, gross (reverse repo transactions included)

	30.06.2010	31.12.2009	Change	
PLN '000			PLN '000	%
Not at risk of impairment, including:	11,186,809	12,502,809	(1,316,000)	(10.5%)
Non-financial sector				
corporate customers	5,293,278	5,637,988	(344,710)	(6.1%)
individual customers	5,394,439	5,540,852	(146,413)	(2.6%)
At risk of impairment, including	2,108,656	2,120,333	(11,677)	(0.6%)
Non-financial sector				
corporate customers	1,286,589	1,460,258	(173,669)	(11.9%)
individual customers	800,624	637,658	162,966	25.6%
Dues related to matured derivative transactions	180,653	137,373	43,280	31.5%
Total	13,476,118	14,760,515	(1,284,397)	(8.7%)
Impairment, including:	1,495,047	1,460,989	34,058	2.3%
Dues related to matured derivative transactions	101,156	106,360	(5,204)	(4.9%)
Loans and advances to non-banking sector, net	11,981,071	13,299,526	(1,318,455)	(9.9%)
Provision coverage ratio	66.1%	63.9%		
corporate customers	53.9%	54.1%		
individual customers	90.2%	88.7%		

Loans to non-banking sector gross, in division to performing vs. non-performing (reverse repo transactions included)

	30.06.2010	31.12.2009	Change	
PLN '000			PLN '000	%
Performing loans	11 594 719	12 892 154	(1 297 435)	(10,1%)
including non-financial sector				
corporate customers	5 618 752	5 950 278	(331 526)	(5,6%)
individual customers	5 476 879	5 617 907	(141 028)	(2,5%)
Non-performing loans	1 570 119	1 585 761	(15 642)	(1,0%)
including non-financial sector				
corporate customers	830 492	1 002 691	(172 199)	(17,2%)
individual customers	718 184	560 603	157 581	28,1%
Dues related to matured derivative transactions	180 653	137 373	43 280	31,5%
Total	13 345 491	14 615 288	(1 269 797)	(8,7%)
Non-performing loans ratio (NPL)	11,9%	11,0%		

On liabilities side, the biggest change (up by PLN 2.7 billion, or 10%) was recorded in liabilities valued at amortized cost. This change was primarily due to higher balance of deposits of banks (up by PLN 2.3 billion,

or 139%) as well as term deposits of corporate customers (up by PLN 1.1 billion, or 14%) as at 30 June 2010.

Deposits

	30.06.2010	31.12.2009	Change	
PLN '000			PLN '000	%
Non-financial sector				
Current accounts, including:	10,037,186	10,611,552	(574,366)	(5.4%)
<i>corporate customers</i>	5,638,093	6,066,200	(428,107)	(7.1%)
<i>individual customers</i>	4,399,093	4,545,352	(146,259)	(3.2%)
Deposits, including:	11,116,551	9,939,698	1,176,853	11.8%
<i>corporate customers</i>	9,269,195	8,148,746	1,120,449	13.7%
<i>individual customers</i>	1,847,356	1,790,952	56,404	3.1%
Accrued interest	20,401	20,708	(307)	(1.5%)
Total	21,174,138	20,571,958	602,180	2.9%
Financial sector				
Banks and other monetary financial institutions	3,923,677	1,643,480	2,280,197	138.7%
Non-banking financial institutions	2,097,277	3,091,780	(994,503)	(32.2%)
Total	6,020,954	4,735,260	1,285,694	27.2%
Total deposits	27,195,092	25,307,218	1,887,874	7.5%

■ Income statement

In the second quarter of 2010 the Group reported consolidated net income of PLN 198.4 million, up by PLN 127 million (or 178%) compared to the second quarter of 2009. At the same period, the Group's revenue increased by PLN 62.4 million (or 10%) to PLN 689 million.

The main determinants of the Group's operating result for the second quarter of 2010 as compared to the corresponding period of 2009 were:

- net interest income amounting to PLN 374.2 million in comparison with PLN 383.6 million recorded in the second quarter of 2009 (down by PLN 9.3 million, or 2%), stemming mainly from lower income from debt securities (increase of debt securities available-for-sale and decrease of debt securities held-for-trading) and non-financial sector loans (decrease of NBP interest rates and decrease of volumes), at the same time cost of non-financial sector deposits was lower;

Interest income

	01.04 - 30.06.2010	01.04 - 30.06.2009	Change	
PLN '000			PLN '000	%
Interest and similar income from:				
Central Bank	6,227	10,606	(4,379)	(41.3%)
Placements in banks	7,465	12,774	(5,309)	(41.6%)
Loans and advances, of which:	298,562	312,185	(13,623)	(4.4%)
Financial sector	6,055	7,059	(1,004)	(14.2%)
Non-financial sector, including:	292,507	305,126	(12,619)	(4.1%)
<i>on credit cards</i>	92,657	73,987	18,670	25.2%
Debt securities available-for-sale	160,914	139,357	21,557	15.5%
Debt securities held-for-trading	19,930	58,087	(38,157)	(65.7%)
Total	493,098	533,009	(39,911)	(7.5%)

<i>PLN '000</i>	01.04 - 30.06.2010	01.04 - 30.06.2009	Change	
			PLN '000	%
<i>Interest expense and similar charges on:</i>				
Operations with Central Bank	(2,360)	(13,772)	11,412	(82.9%)
Deposits from banks	(6,001)	(7,215)	1,214	(16.8%)
Deposits from financial sector (excl. banks)	(18,958)	(27,095)	8,137	(30.0%)
Deposits from non-financial sector	(89,516)	(98,189)	8,673	(8.8%)
Loans and advances received	(2,032)	(3,175)	1,143	(36.0%)
Total	(118,867)	(149,446)	30,579	(20.5%)
Net interest income	374,231	383,563	(9,332)	(2.4%)

- net fee and commission income amounting to PLN 166.1 million in comparison with PLN 131.5 reported in the second quarter of 2009 (up by PLN 34,6 million, or 26%) - primarily due to higher income from payment and credit cards in retail banking as well as from higher commissions on brokerage and custody operations;

Fee and commission income

<i>PLN '000</i>	01.04 - 30.06.2010	01.04 - 30.06.2009	Change	
			PLN '000	%
<i>Fee and commission income</i>				
Insurance and investment products	35,512	34,735	777	2.2%
Payment and credit cards	59,077	40,882	18,195	44.5%
Transaction services	31,207	29,001	2,206	7.6%
Custody services	20,354	15,562	4,792	30.8%
Cash loans	3,099	3,762	(663)	(17.6%)
Brokerage operations	19,587	11,353	8,234	72.5%
Other	19,826	21,667	(1,841)	(8.5%)
Total	188,662	156,962	31,700	20.2%
<i>Fee and commission expense</i>				
Payment and credit cards	(11,828)	(15,796)	3,968	(25.1%)
Brokerage operations	(6,289)	(4,808)	(1,481)	30.8%
Other	(4,478)	(4,891)	413	(8.4%)
Total	(22,595)	(25,495)	2,900	(11.4%)
<i>Net fee and commission income</i>				
Insurance and investment products	35,512	34,735	777	2.2%
Payment and credit cards	47,249	25,086	22,163	88.3%
Transaction services	31,207	29,001	2,206	7.6%
Custody services	20,354	15,562	4,792	30.8%
Cash loans	3,099	3,762	(663)	(17.6%)
Brokerage operations	13,298	6,545	6,753	103.2%
Other	15,348	16,776	(1,428)	(8.5%)
Total	166,067	131,467	34,600	26.3%

- net income on financial instruments and revaluation amounting to PLN 99.8 million as compared to PLN 75 million in the second quarter of 2009 (up by PLN 24.8 million) stemming mainly from improvement

of customer activity, as well as higher income from proprietary management;

- net income in the area of investment debt securities amounting to PLN 35.7 million as compared to PLN 15.4 million in the second quarter of 2009 (up by PLN 20.4 million) as a result of higher level of turnover on AFS securities portfolio;
- in comparison to the second quarter of 2009, in the second quarter of 2010 the Group reported decrease in general administrative expenses and overheads together with depreciation expenses (down by PLN 2.2 million) due to lower advisory services expenses as well as other external services expenses, building maintenance and rent and lower telecommunication fees and hardware purchases;

General administrative expenses and depreciation expense

PLN '000	01.04 - 30.06.2010	01.04 - 30.06.2009	Change PLN '000	%
Staff expenses	174,397	166,901	7,496	4.5%
Remuneration costs	136,426	130,820	5,606	4.3%
Perks and rewards	37,971	36,081	1,890	5.2%
Administrative expenses	160,666	164,813	(4,147)	(2.5%)
Telecommunication fees and hardware purchases	38,624	41,522	(2,898)	(7.0%)
Advisory, audit, consulting and other services	37,363	40,206	(2,843)	(7.1%)
Building maintenance and rent	27,431	30,920	(3,489)	(11.3%)
Marketing	9,377	7,307	2,070	28.3%
Transaction costs	14,801	14,209	592	4.2%
Postal services	7,934	10,590	(2,656)	(25.1%)
Training and education	1,771	1,895	(124)	(6.5%)
Banking supervision	1,904	2,300	(396)	(17.2%)
Other expenses	21,461	15,864	5,597	35.3%
Depreciation/amortization of tangible and intangible assets	15,598	21,114	(5,516)	(26.1%)
Total	350,661	352,828	(2,167)	(0.6%)

- Net impairment losses of PLN 88.8 million compared to the PLN 180.5 million in the second quarter of 2009 (down by PLN 91.7 million, or 51%). The lower net impairment losses were caused by significant improvement of the proportion between the amount of provisions released and created on loans at risk of impairment in the Corporate Banking Sector- due to lasting recovery in the economy and stabilization of clients' financial situation the risk of irregular debt settlement by borrowers was lower. At the same time in the Consumer Banking Sector net impairment losses were higher as a result of quality's deterioration of credits cards and consumer loans portfolios.

▪ Ratios

In the second quarter of 2010 basic financial ratios present as follows:

Financial ratios	Q2 2010	Q2 2009
ROE *	12.8%	6.9%
ROA	1.9%	0.9%
Cost / Income	51%	56%
Loans to non-financial sector / Deposits from non-financial sector**	54%	69%
Loans to non-financial sector/ Total assets **	29%	32%

Financial ratios	Q2 2010	Q2 2009
Net interest income / Revenue	54%	61%
Net fee and commission income / Revenue	24%	21%

*Sum of net profit for last four quarters to equity for last four quarters (excluding net profit for the current year).

Group employment

In full time job equivalents (FTE)	01.01. – 30.06. 2010	01.01. – 30.06. 2009	Change	
			FTEs	%
Average employment in the second quarter	5,732	5,391	341	6
Average employment in the period	5,483	5,394	89	2
Employment at the quarter-end	5,829	5,360	469	8

In the second quarter of 2010 group employment rose compared to equivalent period a year earlier, which resulted from expanding Bank's operational activities, previously performed by outsourcing companies cooperating with the Bank in order to further optimize activities and improve customer satisfaction.

As of June 30, 2010, capital adequacy ratio of the Group amounted to 17.27% and was 0.56 percentage points higher compared to the end of 2009, which was mainly caused by increase of own funds and decrease of total capital requirement (primarily due to lower total market risk requirement).

Capital adequacy ratio*

PLN '000		30.06.2010	31.12.2009
I	Own funds for the calculation of capital adequacy ratio. including:	4,434,867	4,329,257
	Less in core and supplementary funds		
	- interests in subordinated financial entities	55,510	56,895
	- intangible assets, including:	1,279,239	1,282,574
	<i>goodwill</i>	1,245,976	1,245,976
II	Risk-weighted assets and off-balance sheet liabilities (bank portfolio)	17,358,250	17,536,963
III	Total capital requirements. of which:	2,053,921	2,072,351
	- credit risk capital requirements (II*8%)	1,388,660	1,402,957
	- counterparty risk capital requirements	127,600	131,142
	- excess concentration and large exposures risks capital requirements	53,772	54,387
	- total market risk capital requirements	42,951	106,772
	- operational risk capital requirements	361,165	345,885
	- other capital requirements	79,773	31,208
	Capital adequacy ratio (I/III*12.5)	17.27%	16.71%

* Capital Adequacy Ratio was calculated according to the rules stated in Resolution No 380/2008 of the Commission for Banking Supervision dated 17 December 2008 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (...) (KNF Official Journal No. 8. item 34).

7. Segmental reporting

Operating segment is a separable component of the Group that engages in business activities from which it earns revenues and incurs expenses (including intragroup transactions between segments), operating results

of which are regularly reviewed by the Management Board, as chief operating decision maker of the Group, in order to allocate resources and assess its performance.

The Group is managed in respect of two operating segments – Corporate Bank and Consumer Bank. The valuation of segment assets and liabilities, as well as establishing segment results is based on the Group's accounting policies, including intragroup transactions between segments.

The allocation of assets, liabilities, revenues and expenses to operating segments was performed based on internal information prepared for the purpose of management reporting. Transfer of funds between the Group segments is based on prices derived from market prices. The transfer prices are calculated using the same rules for both segments and any difference result only from maturity and currency structure of assets and liabilities.

- Corporate Bank

Within the Corporate Bank segment the Group offers products and renders services to business entities, self-government units and the public sector. Apart from traditional banking services covering lending and deposit activities, the segment provides services in the areas of cash management, trade financing, leases, brokerage and custody services in respect of securities and offers treasury products on financial and commodity markets. In addition, the segment offers a wide range of investment banking services on the local and international capital markets, including advisory services and obtaining and underwriting financing via public and non-public issue of financial instruments. The activities also comprise proprietary transactions in the capital, debt and derivative instruments market. The products and services are available through distribution channels tailored to client needs, both through the branch network, direct contact with customers and modern and effective remote channels such as telephone and electronic banking.

- Consumer Bank

Within the Consumer Bank segment the Group provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs through the Citibusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, it also offers cash loans, mortgage loans and credit cards, as well as provides asset management services and acts as agent in the sale of investment and insurance products. Customers of the Consumer Bank have the branch network, ATMs, telephone services, and electronic banking services at their disposal and a network of financial agents offering products of this segment.

The Group conducts its operations solely in the territory of Poland.

Consolidated income statement of the Group by business segment

<i>PLN '000</i>	For the period			01.01 – 30.06.2010			01.01 – 30.06.2009		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	351,510	395,352	746,862	385,801	388,177	773,978			
<i>Internal interest income, including:</i>	10,663	(10,663)	-	23,712	(23,712)	-			
<i>Internal income</i>	10,663	-	10,663	23,712	-	23,712			
<i>Internal expenses</i>	-	(10,663)	(10,663)	-	(23,712)	(23,712)			
Net commission income	148,847	167,999	316,846	115,207	141,600	256,807			
<i>Internal commission income, including:</i>	-	-	-	3,425	(3,425)	-			
<i>Internal income</i>	-	-	-	3,425	-	3,425			
<i>Internal expenses</i>	-	-	-	-	(3,425)	(3,425)			
Dividend income	2,705	3,141	5,846	3,189	2,736	5,925			

For the period	01.01 – 30.06.2010			01.01 – 30.06.2009		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
<i>PLN '000</i>						
Net income on traded financial instruments and revaluation	142,998	13,647	156,645	94,084	20,493	114,577
Net gain on investment (deposit) securities	57,692	-	57,692	35,245	-	35,245
Net gain on investment (capital) instruments	277	2,239	2,516	3,437	-	3,437
Net other operating income	32,720	(29,469)	3,251	34,838	(4,420)	30,418
General administrative expenses	(299,979)	(344,082)	(644,061)	(303,463)	(380,817)	(684,280)
Depreciation expense	(15,330)	(17,207)	(32,537)	(27,303)	(15,537)	(42,840)
Profit / (loss) on sale of tangible fixed assets	(99)	(118)	(217)	1,654	548	2,202
Net impairment losses	(6,505)	(159,678)	(166,183)	(230,944)	(102,052)	(332,996)
Operating income	414,836	31,824	446,660	111,745	50,728	162,473
Share in net profits (losses) of entities valued at equity method	(158)	-	(158)	(509)	-	(509)
Profit before tax	414,678	31,824	446,502	111,236	50,728	161,964
Income tax expense			(97,132)			(44,406)
Net profit			349,370			117,558

State as at:	30.06.2010			31.12.2009		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
<i>PLN '000</i>						
Assets, including	34,220,694	5,915,268	40,135,962	31,608,909	6,024,154	37,633,063
Assets valued by the equity method	55,510	-	55,510	56,895	-	56,895
Non-current assets held-for-sale	2,999	9,901	12,900	2,999	16,547	19,546
Liabilities, including:	31,024,456	9,111,506	40,135,962	28,370,043	9,263,020	37,633,063
Obligations	27,029,948	6,973,607	34,003,555	24,369,661	7,064,013	31,433,674

8. Activities of the Group

1. Corporate Bank

- Summary of segment results

<i>PLN '000</i>	Q2 2010	Q2 2009	Change	
			PLN '000	%
Net interest income	172,551	204,636	(32,085)	(16%)
Net fee and commission income	76,195	59,980	16,215	27%
Dividend income	2,694	3,177	(483)	(15%)
Net income on traded financial instruments and revaluation	91,784	66,160	25,624	39%
Net gain on debt investment securities	35,732	15,353	20,379	133%

<i>PLN '000</i>	Q2 2010	Q2 2009	Change	
			PLN '000	%
Net gain on investment capital instruments	-	1,997	(1,997)	(100%)
Net other operating income	21,882	15,407	6,475	42%
Total income	400,838	366,710	34,128	9%
General administrative expenses and depreciation	(165,149)	(161,898)	(3,251)	2%
Profit / (loss) on sales of tangible fixed assets	(56)	339	(395)	(117%)
Net impairment losses	(10,702)	(116,077)	105,375	(91%)
Share in profits / (losses) of undertakings accounted for under the equity method	(36)	731	(767)	(105%)
Profit before tax	224,895	89,805	135,090	150%
Cost / Income	41%	44%		

The main factors that determined the gross profit of the Corporate Banking for the second quarter of 2010 as compared to the corresponding period of 2009:

- Decrease in net interest income – lower income from loans (decrease of National Polish Bank reference rates and decrease of volumes) was partially compensated by lower cost of deposits as well as higher income from AFS debt securities;
- Increase in net fee and commission income caused by higher income on brokerage and custody services and execution of payment orders;
- Increase of net income on traded financial instruments and revaluation due to improvement of customer activity, as well as higher income from proprietary management;;
- Increase in net income in the area of investment debt securities as a result of higher level of turnover on treasury bonds portfolio;
- Increase of general administrative expenses stemming mainly from higher staff expenses (primarily as an effect of higher level of sales premiums) and transaction costs. At the same time depreciation (the consolidation of the branch network) and external services expenses recorded a decrease;
- Decrease of net impairment losses - as a result of significant improvement of the proportion between the amount of provisions released and created on loans at risk of impairment. Due to lasting recovery in the economy and stabilization of clients' financial situation the risk of irregular debt settlement by borrowers was lower;

a) Transaction Services

The Bank offers comprehensive, differentiated and modern products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, it delivers modern liquidity management solutions as well as mass payments and receivables management products. By combining the traditional with the best of modern banking solutions, the Bank has pursued with effective consistency the strategy of broadening its product offer, through inclusion of truly innovative services.

- Liquidity and Cash Management Products

The Bank supplies innovative corporate liquidity management solutions. It continues to expand its offer of such liquidity and cash management products with the aim of meeting the expectations of its clients. The liquidity and cash management product range includes among others:

- virtual cash pooling;
- actual cash pooling; and
- actual cash pooling without reverse bookings.

By using these cash pooling structures, clients benefit as they reduce their overall debt vis-à-vis the Bank and manage their funds more effectively. Drawing on its extensive experience, the Bank can deliver effective liquidity management services of consistently high quality.

- Payments and Receivables

Unikasa

Unikasa is a mass payments market brand of high recognition. It is perceived as a modern product that facilitates servicing of the Bank clients' receivables while allowing payers settlement of their bills for products and services in the most frequently visited locations, such as hyper- and supermarket chains throughout the country. The Bank's counterparties can also choose to use the Unikasa Network infrastructure to form their own branded networks. Unikasa is now present in over 250 cities throughout Poland.

In the second quarter of 2010 Unikasa was equipped with additional functionality – one can now pay off their credit card debt via the Network. Starting from the second quarter of 2010, the service is available in over 450 points branded with the Unikasa logo. The Bank has continued to acquire new invoice issuers – from the beginning of 2010 the Unikasa Network accepts payments to six new issuers.

Domestic and Foreign Bank Transfers

In the second quarter of 2010 the Bank conducted 3% more transfer payments compared to the first quarter of 2010 and 5% more compared to the second quarter of 2009.

The aim of the Bank is to continually improve customers' satisfaction through the highest quality of service. Currently the Bank is working on extending the hours of accepting domestic and foreign bank transfers, which will translate into improved customer satisfaction.

Electronic Post Office Money Transfers

Electronic Post Office Money Transfer is a product aimed at corporate clients who transfer money in cash to individuals. The Bank conducted 18% more Electronic Post Office Money Transfers in the second quarter of 2010 than in the previous quarter, while the value of the transactions increased by 23%. Comparing the second quarter of 2010 to the second quarter of 2009, the Bank conducted 95% more Electronic Post Office Money Transfer transactions, while the value of the transactions grew by over 150%.

Loro transactions

The Bank conducted 6% more LORO transactions in the second quarter 2010 compared to the first quarter 2010. Comparing the second quarter of 2010 to the second quarter of 2009 the Bank conducted 14% more transactions. The Bank continues to work on making its offer more attractive in this area. Recently the Bank has introduced significant changes in the process of payment settlement on the LORO accounts. The deadline hour for setting up transactions was extended for another group of key customers using this product. Due to this change the customers can manage their assets better and the Bank improved its position against the competitors.

MicroPayments

In the second quarter of 2010 the Bank continued to strengthen its position of leader in the market segment in which it offers the MicroPayments product. MicroPayments are used by institutions and entities which accept cash deposits from various payers and have the obligation of returning these together with accrued interest. Courts and prosecution administrations are the clients which use that product.

- Card Products

The Bank occupies the position of the leader in the pre-paid payment cards market in Poland – estimated market share of the Bank stood at 51.5%. The Bank's pre-paid charge cards are most frequently used under loyalty, promotional and incentive programs and they have proven an excellent instrument of social benefit distribution. At the end of the second quarter of 2010 the number of actively used pre-paid cards stood at over 368 thousand.

The Bank has sought to strengthen its position in the business cards segment. At the end of the second quarter of 2010 the number of active cards of that type stood at almost 18 thousand.

Pursuing the strategy of inclusion of innovative financial products to its offer, the Bank has recently introduced two new solutions for card products:

- cash products – international pre-paid card. The new service makes it possible for customers to choose the currency – PLN, USD, or EUR – as the currency of the account which will then be used for the settlement of card operations. It is an extremely attractive solution for customers using a PLN denominated card who often travel abroad, where the EUR or USD currencies are used.
- implementation of the Visa Cash Back service for pre-paid cards – offering the possibility of cash withdrawal at retail and service outlets offering this service. The maximum single cash back amount is PLN 200. This service is available to the card holder only and may be conducted only on the territory of Poland.

- Cash Products

The Bank offers its clients a broad range of cash products and solutions. Its product offer is responsive to the needs and requirements of diverse client groups. In addition to corporates, also budgetary units, courts and banks rely on the cash settlements offer of the Bank. In the second quarter of 2010 the volume of customer payments increased once again. The volume was 6.6% higher compared to the same period of the previous year.

- E-Banking

The CitiDirect is the primary e-banking system offered by the Bank to its corporate clients.

At the end of the second quarter of 2010 the number of corporate clients activated in the CitiDirect e-banking system grew by 6.5% compared to the end of the second quarter of 2009 and amounted to 10.5 thousand. The number of transactions processed electronically by CitiDirect e-banking system at the end of second quarter of 2010 amounted to 5.037 thousand maintained at a similar level compared with the equivalent period a year earlier.

The share of bank statements delivered to customers through electronic means only stayed at a high and stable level and, similarly to the second quarter of 2009, amounted to 90%.

- Trade Finance Products

The Bank offers a wide range of trade finance products, including factoring, factoring with insurance, discounting various bills of exchange, supplier financing and distributor financing. In the second quarter of 2010 the Bank continued work to strengthen its position in that segment of banking services. The most noteworthy trade finance achievements of the second quarter of 2010 included:

- receiving 3 Europroduct awards in the category of services in the 15th edition of the Europroduct competition. The Bank received awards for discounted letter of credit, Citi Factoring, and Local Government Factoring. The competition is run under patronage of various institutions, including the Ministry of Economy, the Polish Agency for Enterprise Development, and the Chancellery of the Prime Minister. The goal of the competition is to promote brands, goods and services which deserve to be distinguished as the best in the market. It also awards the services that seek to provide comprehensive

and professional customer care.

- launching the InfoTrade helpline operated by the specialists of the Trade Finance Office in Olsztyn. Through this channel customers can obtain detailed information on transactions realized within trade finance and servicing products (e.g. documentary letter of credit, bank guarantee, bill discount and collection, financing debt – factoring). The direct contact between the clients and the teams servicing their transactions will considerably simplify and speed up the clarification of current operational issues. Consequently, the level of customer satisfaction from the service will increase further.
- over 50 new factoring contracts within the “Citi Factoring” campaign. “Citi Factoring” is a marketing and sales initiative promoting active management of the company’s working capital, using for example recourse factoring coupled with auxiliary services.

The key transactions within trade finance included:

- a bill discount transaction with the limit of PLN 10 million for a global tire manufacturer,
- debt discounting without recourse to the assignor with the limit of EUR 2.1 million for an important supplier of a global beer producer.

The Bank expects further increase in the number of clients and turnovers in the segment of trade finance products. The dynamic development in this area should result for example from the campaign constructed around a new solution of reverse factoring based on the subrogation mechanism, which will be implemented in the Bank in the third quarter of 2010.

In the trade finance area (such as letters of credit, collections, guarantees) the Bank recorded a 16% increase in the number of guarantees issued comparing the second quarter of 2010 with the same period of the previous year. The following guarantees were the most significant:

- a PLN 450 million payment guarantee for one of the Bank’s global clients,
- a PLN 15 million guarantee of proper execution of a contract for a world electric energy leader.

- EU Office

In the second quarter of 2010 the EU Office conducted activities aimed at making the present clients of the Bank active. The Bank representatives organized direct meetings with the clients. During the meetings the possibilities to obtain EU financing were presented. The clients also obtained information on potential financing of innovative undertakings. The meetings were aimed mainly at small and medium enterprises. The campaign was effective in the sense of gaining new clients for whom the EU Office performed advisory activities and prepared application documents.

Additionally, the EU Office representatives conducted training on general EU issues for clients from the government administration sector. The training focused on how the government administration can apply for financing training by the EU.

The result of the EU Office activities in the second quarter of 2010 was growing interest in the Bank’s offer.

b) Capital Markets and the Corporate and Investment Bank

- Treasury

In the second quarter of 2010 the Bank maintained its position in the market of foreign exchange with corporate clients. That was possible owing to a broad range of services offered to clients. Opportunities of investment of currency surpluses and managing the currency position offered by the Bank met the expectations of the clients in this area.

The CitiFX Pulse internet platform has been particularly popular among non-bank clients. The platform is an advanced tool that enables internet-based FX trading at market prices while ensuring speed and safety. More and more clients appreciate easy, fast and safe CitiFX Pulse transactions. The number of active users is continually growing, as is the Bank's revenue from on-line transactions. In the second quarter of 2010 the revenue grew by over 90% compared to the same period of the previous year.

In the area of complex derivatives the second quarter of 2010 proved beneficial. Corporate clients increasingly turn to the possibilities of hedging commodity transactions and interest rate risk. In the period the Bank's sales increased by about 13% compared to the same quarter of 2009. This result was achieved owing to the Bank's comprehensive offer suited to the clients' needs.

- **Commercial Bank**

Through its commercial banking franchise the Bank channels comprehensive financial services to the largest Polish companies, strategic companies with strong growth fundamentals as well as the largest financial institutions and public sector companies.

One common characteristic of the commercial banking clients is their need for advanced financial products and financial services advisory. The Bank provides in that area coordination of treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovativeness and competitiveness of the novel financing structures on offer come from a combination of local expertise and experience of the Bank and its cooperation within the global Citigroup structure.

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

Assets

PLN million	30.06.2010	31.03.2010	Change	
			Amount	%
Total Commercial Bank	6,761	6,875	(114)	(1.6%)
including:				
MMEs and SMEs	864	868	(3)	0%
Large enterprises	697	662	35	5%
Public sector	94	101	(7)	(7%)
Global Clients	2,572	2,481	91	3.7%
Strategic Clients	1,412	1,544	(132)	(8.5%)

Liabilities

PLN million	30.06.2010	31.03.2010	Change	
			Amount	%
Total Commercial Bank	16,283	14,423	1,860	13%
including:				
MMEs and SMEs	1,943	2,013	(70)	(3%)
Large enterprises	725	726	(1)	0%
Public sector	1,934	1,873	61	(3%)
Global Clients	7,326	7,123	203	3%
Strategic Clients	4,040	2,612	1428	55%

Key initiatives in the Global Clients Segment

The Bank's position is particularly strong in servicing corporations. In servicing the largest clients the strong advantage of the Bank is its Citigroup membership. The Bank is able to offer unique services to its clients that combine its knowledge of domestic economic conditions with the Citigroup's international experience

and global reach. In the second quarter of 2010 key Equity Capital Market (ECM) transactions were financed in cooperation with Dom Maklerski Banku Handlowego S.A. The Bank managed to considerably grow balances in current accounts and win a few significant GTS transactions.

Key initiatives in the Strategic Clients Segment

In the second quarter of 2010 the Bank, in collaboration with other Polish banks, finalized the PLN 3 billion financing transaction for the leading company of energy sector in Poland. Bank Handlowy w Warszawie S.A. is the lead underwriter for the sum of PLN 450 million. Additionally, in collaboration with the Citigroup the Bank conducted several structured derivative transactions with the largest Polish companies. Another success is winning the tender for partial financing of working capital in the form of credit in current account for a leading energy company.

Key initiatives in the Middle Market Enterprises, Small and Medium Enterprises and Public Sector Segments

In the second quarter of 2010 the Bank focused in particular on rebuilding assets. To that end a number of initiatives were conducted. These include: adapting the Credit Program and industry approach to the market offer, implementation of competitive pricing offer for financing assets as well as close monitoring of credit decision-making time. As a result, in 6 months almost 500 clients extended their cooperation with the bank by credit products.

Additionally, in the second quarter of 2010 two activation campaigns were launched. They were aimed at both the present and potential clients of the Bank. The first campaign focuses on working capital, while the second one on higher current account interest rate and lower bank transfer charges. The first campaign resulted in 26 new contracts for PLN 31 million of assets. 68 further contracts are underway. The second campaign resulted in client account balances growth by PLN 20 million.

Other activities aimed at activating the present client base and acquiring new clients were the initiatives of financing suppliers and offering retail banking products to corporate clients. As a result, in the first half of 2010 185 new clients were acquired, including 21 credit clients. The biggest gain in the number of newly opened accounts occurred in the second quarter of 2010.

The largest transactions included:

- A PLN 300 million municipal bond issue for the city of Warsaw,
- An issue of another tranche of PLN 140 million income bonds for a significant public sector entity.
- Dom Maklerski Banku Handlowego S.A. (DMBH), a subsidiary

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 second quarter of 2010 the DMBH acted as an intermediary in 15.2% of secondary equities trading transactions, thus retaining its market leadership. Over the period the value of equity trades executed via DMBH on WSE reached PLN 18.5 billion (growth of 78,1% compared to equivalent period of 2009) while trading over the entire WSE market increased by 46,7% compared to equivalent period of 2009.

The number of brokerage accounts with the DMBH at the end of the second quarter of 2010 was 8,263 and had increased by 14% compared to the first quarter of 2010, in particular as a consequence of PZU S.A and TAURON Polska Energia S.A. public offerings.

Because of a large exposure of the DMBH to institutional and foreign investors, the activity of clients from these segments is a key factor influencing the DMBH's business. The listing of significant market value companies on the main floor (PZU, Tauron) considerably increases foreign investors' interest in the WSE

and thus generates more trade for DMBH. The activity of domestic institutional investors depends, on the other hand, on the inflow of cash to investment funds, which in turn is a function of the equity market situation. The DMBH is currently a market maker on the WSE for 36 financial instruments – companies, futures contracts and index units – which makes it one of the leading brokerage houses serving such a function on the WSE.

In the second quarter of 2010 the DMBH carried out the following offerings:

- the public offering of the city of Warsaw municipal bonds series 3 (April 2010) and series 4 (May 2010), of the total nominal value of PLN 600 million. The DMBH acted as a Co-Underwriter,
- the accelerated sale of PLN 42 million Azoty Tarnów S.A. shares, conducted in April 2010. The DMBH acted as a Co-Bookrunner,
- the public call for 100% shares of Atlas Estates Limited, announced in April 2010 and finished in June 2010, the announced value of PLN 125 million. The DMBH acted as an intermediary for the call.

In the second quarter of 2010 Dom Maklerski Banku Handlowego S.A. also participated in the following transactions to be completed in the third quarter of 2010:

- the public call for 100% shares of Nepentes S.A., announced in May 2010 with the completion planned for August 2010, the announced value of PLN 450 million. The DMBH acted as an intermediary for the call,
- the public offering of the B series Investment Certificates of Legg Mason Akcji Skoncentrowany FIZ, commenced in June 2010 with the completion planned for July 2010, the announced value of PLN 124 million. The DMBH acted as the Underwriter.

Summary Income Statement and Balance Sheet*

Company name	Headquartered	Participation interest of the Bank in equity	Balance sheet total as at 30.06.2010 PLN '000	Equity as at 30.06.2010 PLN '000	Net financial result for 01.01-30.06.2010 PLN '000
		%			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100,00	631,398	95,544	12,169

*Unaudited data

- Handlowy-Leasing Sp. z o.o. (Handlowy-Leasing), a subsidiary

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

The value of leases contracted in the second quarter of 2010 stood at PLN 50.3 million, compared to PLN 63.5 million of new contracts executed in the second quarter of 2009, representing a decline by 21%.

The structure of assets leased in the second quarter of 2010 was evenly distributed and half of it comprised of heavy transport vehicles and the other half of machinery and equipment.

Net asset value of leases

PLN million	Q2 2010	Q2 2009	Change PLN million	%
Value of leases contracted in the period:	50.3	63.5	(13.2)	(21%)
- for vehicles	25.2	27.6	(2.4)	(9%)
- for machinery and equipment	25.1	35.9	(10.8)	(30%)

The company pursues its strategy, whose main assumption is selling leasing solely to the clients of Bank Handlowy w Warszawie S.A.

The Company gives priority to the quality of the credit portfolio. More specifically, it adjusts its business to the changing economic conditions, assesses risk profiles of all new transaction projects and maintains strict discipline in management of its credit portfolio.

The second quarter of 2010 was a period of adapting the structures of Handlowy-Leasing to the changes on the part of the Bank and it was a period of intense activities devoted to broadening its offer targeted at all the groups of the Bank's clients.

The company has continued to take numerous actions to increase lease sales through the banking network by activating account managers and by running a dedicated competition for them.

Summary Income Statement and Balance Sheet*

Company name	Headquartered	Participation interest of the Bank in equity	Balance sheet total as at 30.06.2010	Equity as at 30.06.2010	Net financial result for 01.01-30.06.2010
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warsaw	100,00	1,039,661	160,102	1,916

*Unaudited unit data

2. Consumer Bank

• Summary segmental results

PLN '000	Q2 2010	Q2 2009	Change PLN '000	%
Net interest income	201,680	178,927	22,753	13%
Net fee and commission income	89,872	71,487	18,385	26%
Dividend income	3,141	2,736	405	15%
Net income on traded financial instruments and revaluation	7,982	8,809	(827)	(9%)
Net other operating income	(14,089)	(1,599)	(12,490)	781%
Total income	288,586	260,360	28,226	11%
General administrative expenses and depreciation	(185,512)	(190,930)	5,418	(3%)
Profit / (loss) on sale of tangible fixed assets	(39)	381	(420)	(110%)
<u>Net impairment losses</u>	<u>(78,127)</u>	<u>(64,426)</u>	<u>(13,701)</u>	<u>21%</u>
Profit before tax	24,908	5,385	19,523	363%
Cost / income	64%	73%		

The main factors that determined the gross profit of Consumer Bank in the second quarter of 2010 as compared to the corresponding period of 2009:

- Increase in net interest income both through improvement in income driven mainly by credit cards resulted from higher average level of receivables as well as lower interest costs;
- Increase in fee and commission income resulting mainly from higher income on payment and credit cards as well as lower cards acquisition expenses;

- Decrease of expenses as a result of continuation of the optimization process in the scope of branch network, infrastructure and technology as well as lower acquisition expenses;
- The higher net impairment losses were caused by quality's deterioration of the consumer loans portfolio and credits cards;

a) Credit Cards

The total portfolio of credit cards as at the end of the second quarter of 2010 amounted to 952 thousand.

In the second quarter of 2010 the Bank introduced temporary special offers to the Comfort Installment Repayment Plan aimed at Citibank-BP and Citibank-Plus Credit Card holders. Within the program the client collected additional points in loyalty partners' programs for spreading non-cash transactions into installments. Marketing campaigns were also conducted (leaflets attached to bank statements, electronic mailing) under the slogans of "Turn on a green light to your needs!" and "Buy now – pay later". Additionally, in May 2010 the Bank enabled the clients using the Comfort Installment Repayment Plan to extend the Plan already chosen by an additional cash transfer from the Card and to consolidate it with the installment plan.

The Bank continues selling cards in the biggest Polish Shopping Centers and airports. Currently the Bank sells its credit cards in 5 airports and in 7 shopping centers in Poland.

A new Citibank-BP Automobile Credit Card was introduced within the PAYBACK Program. Its holders can now collect points for non-cash transactions with the card for purchases at BP petrol stations and with other PAYBACK Program partners.

Additional insurance, "The Travel Package" service, was made available to Citibank Credit Card holders in June. The insurance covers mainly the costs of health care service when travelling abroad, car assistance and travel assistance.

In the second quarter of 2010 new retail trade and service outlets became Partners of the Rebates and Discounts Program. Currently the program covers almost 4500 trade and service outlets in Poland and is the largest program of its kind in Poland.

b) Consumer Bank

- Bank accounts

In the second quarter of 2010 the Bank focused on acquiring new personal accounts and on exchanging debit cards for new MasterCard *PayPass* chip cards with PayPass functionality.

On 1 June 2010 the Bank introduced promotional offers for two accounts – the internet account and the account for clients preferring traditional service. The promotions offer very attractive pricing conditions, for example all cash withdrawals from all ATMs in Poland are free of charge. The offer is supported by an internet and billboard marketing campaign throughout Poland.

On 4 May 2010 the Bank launched a new marketing campaign to promote the new MasterCard *PayPass* cards linked to individual accounts. Clients who replaced their previous card with the new one and made transactions in trade and service outlets could win 8 trips to New York and 400 cameras. The presence on the internet and in the Bank's branches made it possible to considerably exceed plans of issuing new cards and increase the number of shopping transactions versus ATM cash withdrawals.

In the second quarter of 2010 the Bank also continued its special offer of individual accounts for Citibank Credit Card holders. The clients holding the Citibank Credit Card were offered the annual charge exempt if they decided to transfer their remuneration to the Citi Handlowy individual account.

On 1 April 2010 the Bank lowered the interest rates of deposit products denominated in foreign currencies. The change of interest rates attributed to the growth of income efficiency from savings accounts and deposits denominated in these currencies and was a part of the strategy of active interest management for clients.

In June the Bank offered a unique promotion of the Medical Package to the present and new clients. The clients who start to transfer at least PLN 1500 monthly to the Bank will be able to use option 1 of the Medical Package free of charge. The option provides unlimited access to 5 specialist doctors. The promotion will continue until the end of June 2011.

The number of bank accounts grew to 746 thousand in the second quarter (including 199 currency accounts) from 734 thousand in the first quarter of 2010, which is nearly 2% increase QOQ, and from 654 thousand in the second quarter of 2009, which is 14% increase YOY. The 746 thousand number includes savings accounts, which for the second quarter 2010 totaled 199 thousand.

- Credit Products

Cash loan

In the second quarter of 2010 the Bank continued activities aimed at execution of the Bank's strategy in the area of service and offer for particular client segments. In May the Bank introduced an attractive pricing offer of the cash loan for the Citigold segment clients, which provides additional benefits for clients actively cooperating with the Bank within deposit products.

"The more you consolidate, the more you gain" promotional program was a great success. Under the program the clients who consolidated liabilities incurred with other banks with a Cash Loan gained one, lower monthly installment instead of several ones. As the program proved to be extremely popular, the Bank decided to prolong the offer until April 2010. The client who decided on the offer gained lower interest that depended on the amount of their external consolidated liabilities.

In June 2010 a program directed at the best clients using the cash loan was introduced. Its aim was to encourage the clients to deepen their credit relation with the Bank by increasing the size of the loan under very attractive conditions. The offer was constructed as follows: the fewer months were left to the termination of the client's current loan contract, the more attractive the pricing conditions became. The benefits offered in particular stages of the program included no interest for the first month of using the increased loan or reduction by half of the up-front fee for a new loan and finally lowering interest by 1.5 percentage points compared to the standard offer.

Credit Line

In the second quarter of 2010 a new price list of the Credit Line was introduced. It included progressive interest, which means that the interest rate depends on the limit of the Line.

The clients who decide on a high limit receive a very attractive interest rate. Additionally, the Bank continues the price promotion and does not charge commission for the first year of using the Credit Line.

A new offer of a credit line for customers who wish to transfer the whole relation to the Bank was introduced in June. The client receives a promise of the loan which obliges the Bank to grant a Credit Line to the limit agreed as soon as the first remuneration is transferred to the client's individual account.

Mortgage products

The sale of mortgage products between March and May 2010 was supported by "Special Offer 3x PLN 0". The offer consisted in exempting clients from:

- a Housing Loan or Mortgage Loan origination fee;
- a fee for real estate assessment;
- a fee for registering mortgage with the mortgage and land register.

Additionally, the campaign is accompanied by a contest for the best project for a virtual apartment in a dedicated internet service at www.zamieszkajiwygraj.pl. The Bank conducted an analysis of the margins at the end of May and decided to lower their level for the clients by as much as 0.2%. The promotion combined with the contest and lower margins added to a significant increase in sale of mortgage products.

- Investment Products

Investment Life Insurance

The Bank signed an agent contract with the PZU, the largest Polish insurer, under which by the end of 2011 the Bank will carry out 8 subscriptions of individual investment life insurance, with insurance cover provided by the PZU.

Structured Bonds

The Bank carried out 7 structured bond subscriptions aimed at the Citigold and Citigold Select clients. The structured bonds were denominated in PLN (3 subscriptions), USD (3 subscriptions) and GBP (1 subscription). The offers were directed both at clients who were seeking products with fixed coupon (4.5% p.a. for bonds denominated in USD or GBP) and at those who were seeking indirect exposure to the equity market with conditional invested capital protection by the Issuer at the date of maturity.

Investment funds

A new offer was prepared for new Bank clients that makes it possible to purchase shares of domestic and foreign investment funds with a significantly discounted processing fee.

Bank Securities

The Bank introduced a new structured product to its offer – the Bank Securities. In the first subscription the Bank offered an 18-month product with payment based on the EUR/PLN currency pair. Within the product the clients have the opportunity to achieve a premium depending on how much PLN will strengthen against EUR. Bank Securities guarantee 100% protection of invested capital on maturity and are guaranteed by the Bank Guarantee Fund.

Brokerage services

The Bank continued its information and promotion campaign on brokerage services offered by the Bank and the DMBH. A special offer was prepared for the clients, under which the commission on operations via the DMBH internet service was lowered in the promotional first three-month period – from the standard 0.38% to 0.20%. Additionally, the clients who decided to transfer their securities to the account opened through the Bank were reimbursed the cost of this operation in the form of reimbursed commission on orders placed in the new account.

The Bank's clients used brokerage services actively during the two large public offerings of the companies being privatized: PZU and TAURON. The presence of brokerage services in the Bank's offer was viewed positively by the clients, which was reflected by a large number of orders placed.

The second quarter of 2010 saw a remarkable growth in the number of new brokerage accounts – 853. As many as 72% of the newly opened brokerage accounts are active (with 62% for the first quarter of 2010). Due to this there was an improvement in the structure of the whole portfolio of the clients who use brokerage services of the Bank and the DMBH. Currently over 43% of brokerage accounts are active, a ratio that is markedly above market average.

- Insurance Products

In the second quarter of 2010 the Bank continued to develop its insurance offer regarding different kinds of insurance products. The changes were aimed both at extending the current product range and at making the present products more attractive.

The new offer of life insurance coupled with insurance capital funds

In June 2010 the Bank modified its offer of life insurance combined with capital funds. The changes consisted in introducing a new version of products with a regular payment (Optimum Investment Plan) and with a single payment (Premium Investment Portfolio). The products are offered in collaboration with Aegon TUnŻ S.A. insurance company.

Both products include:

- an attractive payment structure – more advantageous terms for higher payment sums: lower management fee, unlimited value of transfers between funds without additional fees, lower administrative fee (for the regular payment product),
- 100% of payment allocation, without up-front fees,
- broad investment possibilities through 49 insurance capital funds which allow to invest funds and maintain diversification in relation to the sectors, asset classes and regions (including the so-called PLN-hedged funds, which allow to invest in PLN without the currency risk),
- flexibility through available product variants, e.g. different minimum periods for regular payment, different levels of insurance coverage,
- insurance coverage in case of death.

Insurance Policy for a Good Start

In June the Bank's offer was broadened by a new coverage-savings insurance, the "Insurance Policy for a Good Start", which is a product that provides financial security for children. The insurance is offered with a single or regular payment. The insurer is MetLife TUŻ S.A.

The product offers:

- financial security for the child – during the life of the contract and on its termination, when the child starts their own life,
- a guaranteed payment to the child on termination of the contract with the potential of participation in profit,
- taking over regular payments by the Insurer – saving continues in the case of death of the parent/guardian or in the case of their inability to work or serious illness,
- additional regular benefits for the child – during the life of the contract in the form of monthly payments (allowance) in the case of the death of the insurance holder.
- flexibility of the product and the possibility of introducing additional variants of insurance cover.

Travel Insurance

In June the Bank introduced a new product for credit card holders – the Travel Insurance. The insurance is offered as an option and covers the primary card Holder and is valid for any trip up to 60 days long. The Insurer is Europe Assistance Holding Ltd.

Depending on the type of the card, the offer includes:

- for the Citibank-LOT cards: travel insurance valid outside Poland, all over the world (The World Travel Package),
- for other cards, other than the LOT (Europe Travel Package):
 - travel insurance valid outside Poland, in Europe,
 - car assistance valid when travelling in Poland and in Europe (towing, repair on site, fuel delivery,

replacement car, etc.).

The change in the Safe Installments insurance for cash loans

The new variant provides insurance cover for the first three years of the loan and is available only for loans taken out for 5 years or more. This variant is designed mainly for those clients who plan to repay the loan earlier already on the date of taking out the loan (or wish to secure the payments only in the initial period, when the debt is the highest).

The insurance coverage and annual fee remains unchanged. The previous Safe Installments insurance variant with all the loan period covered is still offered.

- Electronic and Telephone Banking

The Internet

In the second quarter of 2010 the Bank executed programs supporting acquisition of clients who actively use the Citibank Online facility and select the electronic form of account and credit card statements.

Within the campaign promoting the electronic statement – “More trees thanks to You” – the Bank planted over 141 thousand new trees near Białystok.

“More trees thanks to You” is a campaign of Citi Handlowy, Leopold Kronenberg Bank Foundation and Our Earth Foundation, within which the Bank obliged itself to plant one tree for each client who decides on an electronic statement instead of a paper one.

During three years of the campaign the Bank has planted over 320 thousand trees all over Poland.

The most important event in the second quarter of 2010 was launching another service channel for individual clients: the Citi Mobile banking service. The service is aimed at mobile phone owners and allows them to manage their current and credit card account virtually from any place. As a result the clients were equipped with a tool that enhances the convenience and comfort of daily bank account use.

The above-mentioned activities provide stable growth in the number of clients using electronic service channels:

- the number of clients registered with electronic banking at the end of the second quarter was over 597 thousand, i.e. it grew by 4% compared to March 2010,
- the number of electronic statement users was over 480 thousand, i.e. it grew by over 2% compared to March 2010.

The Bank's involvement in the development of electronic service channels was also noticed by independent experts. In a ranking prepared by Miesięcznik Finansowy BANK, published by the Polish Bank Association, Bank Handlowy w Warszawie S.A. was selected as the best internet bank.

CitiPhone

In the second quarter of 2010 the CitiPhone 24h customer service team satisfied the assumed quality standards for customer telephone services and the telephone service factor (TSF) was over 80,5% in the quarter and 81,1% in the half of the year.

- Indirect and Direct Customer Acquisition

The second quarter of 2010 was a period of strengthening cooperation of the Citibank At Work Office with corporate clients of the Bank by offering tailored retail products to employees of those companies. At the same time the Office was extremely active in the field of financial seminars for company employees. Very

positive reactions on the part of the Bank's clients and partners allowed to organize over 170 presentations with over 2100 participants. This translates into growth of over 125% and 110% respectively, compared to the first quarter of 2010.

In connection with a dynamic development of the network in March 2010 a decision was taken to create a new, dedicated sales structure designed to support and develop sales of bank products through innovative franchise channels. Subsequent agreements with Polkomtel partners were finalized, due to which the network grew to 160 Plus GSM sales outlets. In May one of our main partners, the mPunkt company, decided to terminate contracts with Polkomtel (the owner of the Plus GSM brand). As a result the network lost almost 100 sales outlets. At the same time Polkomtel started the process of renegotiating contracts with their agents, which slowed down the pace of development in the channel. Talks with the present and potential partners are still going on, and their aim is to quickly reconstruct the network. The reaction to the changes was a decision to dispose of the external structure that so far had supported sales in the Polkomtel channel, which resulted in significant savings. Simultaneously, the growing efficiency of operation led to growth of sales as early as June. The level of activation of the cards sold is still growing and in June it stood at almost 68%. The Bank also managed to acquire a new partner, which provides opportunities of distributing the LOT credit card. The Bank continued the project of selling credit cards in airports while broadening the scope of activity by selling travel insurance. Two new outlets in Poznań and Gdańsk were opened within the project of shopping centers sales.

In June the Direct Sales Agencies also started the sale of individual accounts.

2. Branch network

At the end of the second quarter of 2010 the branch network comprised 158 outlets and included the L type outlets (formerly the Commercial Bank, the CitiGold Wealth Management outlets and the Investment Centre), the M type outlets (former multifunctional outlets) and the S type outlets (former CitiFinancial branches).

In the second quarter of 2010 the Bank continued to optimize its branch network. The process contributed to increased operational efficiency, improved sales, optimized use of human resources and infrastructure, and rationalization of the Bank's property management costs.

The branch network optimization in the first quarter of 2010 included the following:

- in consequence of a property sale decision, full operational activity of an L type outlet was consolidated and moved from ul. Św. Ducha 2 to the existing, expanded outlet at pl. Rodła 8 in Szczecin,
- full operational activity of an L type outlet was consolidated and moved from ul. Piłsudskiego 63 to the existing, expanded outlet at ul. Pieniężnego 15 in Olsztyn.
- full operational activity of an L type outlet was consolidated and moved from ul. Tolstoja 2 to the existing outlet at ul. Rynek 20 in Świdnica,
- two outlet consolidations formerly branded as CitiFinancial were carried out. The activities consisted in moving the outlets to existing multifunctional outlets that now offer a full range of products,
- the operational activity of an L type outlet at ul. Barlickiego 3 in Kutno was terminated.

Meanwhile it is worth noting that retail banking is consistently strengthening its presence in the market through non-standard sales channels. The examples of such actions are bank stands in franchise outlets of Polkomtel, the mobile network operator, independent stands in 5 domestic airports or stands in 7 shopping centers, where customers can apply for a credit card. The Bank's retail clients can check the balance of their accounts or withdraw cash free of charge using Euronet ATMs located all over the country. In order to support communicating these functionalities to the customers, the Bank signed an agreement with the Euronet ATM network under which almost 1000 independent ATMs of this network were branded with the

Citi Handlowy logo.

The number of branches

	Q2 2010	Q1 2010	Q2 2009	Change QOQ	Change YOY
Number of outlets:	158	164	37	(6)	(79)
- L type	43	45	48	(2)	(5)
- M type	90	90	70	-	20
- S type	25	29	84	(4)	(59)
- T type	-	-	35	-	(35)
Other sales / customer service outlets:					
Polkomtel sales points	71	172	34	(101)	37
Airports	5	3	-	2	5
BP Petrol stations	5	42	182	(37)	(177)
Shopping malls	7	4	-	3	7
Number of own ATMs	154	154	163	-	(9)
“Euronet” ATMs with logo of “Citi Handlowy”	789	100	-	689	789
Unikasa – advanced functionality	450	-	-	450	450

9. Seasonality or cyclical nature of business activity

The business activity of the Group is not significantly influenced by seasonal or cyclical factors.

10. Issue, buyout and repayment of debt and equity securities

No debt or equity securities were issued, bought out or repaid in the second quarter of 2010.

11. Paid or declared dividends

Declared dividends

According to Resolution no 29/2010 of the Ordinary General Meeting of 28 June 2010 the profit for year 2009 was divided and the decision to pay out the dividend was made. Record and payment dates were also set. It was decided to pay out PLN 492,586,692.00 as a dividend to stockholders from net profit for the year 2009 which determined the payout for single share at PLN 3.77. The amount of shares eligible to dividend is 130,659,600.

Record date was set to be 5 July 2010 and payment date is 30 August 2010.

12. Changes in the Group's structure

In the second quarter of 2010 the structure of the Group has not changed as a result of merger, acquisitions or disposal of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

13. Major events after the balance sheet date not included in the financial statements

As at 30 June 2010 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group.

14. Movements in off-balance sheet commitments

As at 30 June 2010 in relation to the end of 2009 there were not any significant changes in the range of granted or received conditional liabilities, except some changes concerning the amount of PLN 1,293 million

at a position of received financial liabilities, concerning captured time deposits with a future value date.

Other changes in off-balance sheet in relation to the end of 2009 mainly concerned liabilities regarding realization of buy/sell operations i.e. growth of the volume of forward transactions – regarding FRA transactions.

The off-balance sheet commitments are as follows:

	30.06.2010	31.12.2009
<i>PLN '000</i>		
Contingent liabilities		
Granted liabilities		
a) financial	11,274,516	11,857,013
<i>Import letters of credit issued</i>	104,588	128,453
<i>Lines of credit granted</i>	10,863,500	11,428,560
<i>Deposits to withdraw</i>	6,428	-
<i>Subscription of securities granted to other issuers</i>	300,000	300,000
b) guarantees	2,234,109	1,910,419
<i>Guarantees granted</i>	2,186,909	1,902,396
<i>Export letters of credit confirmed</i>	8,350	8,023
Other	38,850	-
	13,508,625	13,767,432
Liabilities received		
a) financial (<i>deposits to receive</i>)	1,292,655	-
b) guarantees (<i>guarantees received</i>)	2,922,635	3,231,817
	4,215,290	3,231,817
Current off-balance sheet transactions*	4,530,807	989,499
Forward off-balance sheet transactions**	162,589,424	150,135,664
	184,844,146	168,124,412

*Foreign exchange and securities trading, transactions with current value date

** Derivatives: FX, interest rate transactions and options

15. Achievement of 2010 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2010.

16. Information about shareholders

As at the day of transfer of the Interim Statement for the second quarter 2010 the list of shareholders who held at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital is as follows:

	Value of shares (PLN '000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75	97,994,700	75
Other shareholders	130,659	32,664,900	25	32,664,900	25
	522,638	130,659,600	100	130,659,600	100

In the period between publishing Interim consolidated financial statement for the first quarter of 2010 and publishing this statement for the second quarter of 2010 the structure of major shareholdings has not undergone any changes.

17. Ownership of issuer's shares by managing and supervising officers

According to the best knowledge of the Bank – predominating unit, the number of the Bank's shares held by managing and supervising persons, has been presented below:

Name and surname	Function	Number of shares on day of transfer of the Interim Financial Statement for the second quarter 2010	Number of shares on day of transfer of the Interim Financial Statement for the first quarter 2010
Iwona Dudzińska	Member of the Managing Board	600	600
Andrzej Olechowski	Vice-chairman of Supervisory Board	1,200	1,200
Total		1,800	1,800

The managing and supervising officers have not declared any options for Bank's shares.

18. Information on pending proceedings

In the second quarter of 2010 there was no single proceeding regarding debts of the Bank or debts of any bank controlled company pending before court, public administration authority or an arbitration authority, the value of which would equal at least 10% of the Bank's equity.

The total value of all court proceedings with the participation of the Bank and its controlled companies regarding debts exceeded 10% of the Bank's equity and equaled PLN 662 million.

In the second quarter of 2010, the amount of debts of the Bank has decreased. Moreover, big amount of carrying on voluntary arrangement proceedings, bankruptcy proceedings and bankruptcy proceedings with option of voluntary agreement or liquidation, in which the Bank or its subsidiaries participate as creditors and court proceedings with the participation of the Bank concerning enforcement of clause of feasibility to Bank executive title, is still kept. It should be emphasized that the court proceedings, especially bankruptcy and voluntary arrangement proceedings, are long-lasting and protracted.

In accordance with applicable regulations, the Group recognizes impairment losses for loans subject to court proceedings.

As a result of closed proceedings, at least a part of debts due is recovered, which provides a basis for reversing previous impairment losses in part or in whole.

The most significant legal actions that are pending in relation to receivables are as follows:

Parties to Proceedings	Litigation Value (PLN '000)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie S.A.	74,024	In April 2009 the Court declared the bankruptcy with the option of liquidation of the Bank's client	In January 2010 the Bank submitted its receivables from loan agreements to the proceedings. Case pending.
Creditor: Bank Handlowy w Warszawie S.A.	43,690	On 12 February 2009 – it was resolved to declare the debtor bankruptcy with an option of a voluntary agreement.	The Bank submitted its receivables from the loan agreements and forward transactions to the proceedings. Case pending.

Parties to Proceedings	Litigation Value (PLN '000)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie S.A.	65,431	On 30 June 2009, the Court declared the debtor's secondary bankruptcy, including the liquidation of the debtor's property and appointed a syndic	The Court called the creditors to submit their receivables. The Bank's receivables concern forward transactions. Case pending.

In the second quarter 2010, there was no proceeding regarding liabilities of the Bank or liabilities of any bank controlled company, the value of which would equal at least 10% of the Bank's equity, pending before court, public administration authority or an arbitration authority.

In the second quarter 2010 the total value of all court proceedings with the participation of the Bank and subsidiaries of the Bank regarding liabilities has not exceeded 10% of the Bank's equity capital.

The target reserves were established in case of legal action concerning risk of Group's commitment appropriations outflow.

19. Information about significant transactions with related entities which were deal on other than market terms

In the second quarter of 2010, the Bank and its subsidiaries enter into transactions with related entities. All transactions with related entities were deal on market terms.

20. Information about guarantee agreements

At the end of the second quarter of 2010, the total value of sureties and guarantees extended by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's consolidated shareholders' equity.

21. Other important information

Staff Changes

On 26 May 2010 Mr. Robert Daniel Massey JR was appointed Vice-president of the Management Board of the Bank.

On 25 June 2010 Mr. Goran Collert resigned from the post of the Member of the Supervising Board of the Bank.

On 28 June 2010 Mr. Frank Mannion was appointed Member of the Supervising Board of the Bank.

On 28 June 2010 Mr. Krzysztof Opolski was appointed Member of the Supervising Board of the Bank.

On 28 June 2010 Mrs. Aneta Polk's seat in the Supervising Board of the Bank has become expired.

22. Description of factors and events that might affect the Group's future financial performance

The risk of deteriorating public finance is still real given the uncertainty surrounding the scale and pace of the global economic recovery. The realization of a negative macroeconomic scenario in the world and in Poland and growing public debt to GDP ratio would require tightening the fiscal policy in the coming years. Lowering fiscal deficit by cutting expenses and raising taxes would negatively affect the Bank clients' discretionary income.

The realization of a negative macroeconomic scenario in the world, and particularly in the Eurozone, would negatively affect the exporters' performance, which could translate into unfavorable job market situation and weakening of the zloty. The depreciation of the domestic currency could also be triggered by revival of concerns over the fiscal situation of the most heavily indebted countries. A worse job market situation and a weaker zloty would negatively affect the condition of households, and particularly those borrowers, who took out loans in foreign currencies.

The above-mentioned factors might have an influence on the Group's performance in subsequent periods.

Summary interim financial statements of the Bank for second quarter 2010**Condensed income statement of the Bank**

<i>PLN '000</i>	Second quarter period from 01.04.10 to 30.06.10	Second quarter growing period from 01.01.10 to 30.06.10	Second quarter period from 01.04.09 to 30.06.09	Second quarter growing period from 01.01.09 to 30.06.09
Interest and similar income	485,291	973,917	519,246	1,053,047
Interest expense and similar charges	(119,258)	(243,109)	(148,634)	(305,692)
Net interest income	366,033	730,808	370,612	747,355
Fee and commission income	169,589	323,774	145,612	284,095
Fee and commission expense	(16,803)	(36,760)	(20,672)	(39,325)
Net fee and commission income	152,786	289,014	124,940	244,770
Dividend income	12,498	12,509	17,564	17,574
Net income on financial instruments and revaluation	104,494	157,868	71,476	121,615
Net gain on investment (deposit) securities	35,732	57,692	15,353	35,245
Net gain on investment (capital) instruments	-	2,516	1,997	3,437
Other operating income	19,987	39,270	18,654	47,014
Other operating expenses	(7,807)	(31,235)	(5,558)	(16,524)
Net other operating income	12,180	8,035	13,096	30,490
General administrative expenses	(325,467)	(624,972)	(324,004)	(665,821)
Depreciation expense	(14,281)	(30,091)	(19,770)	(40,787)
Profit / (loss) on sale of tangible fixed assets	(81)	(203)	718	2,210
Net impairment losses	(88,925)	(163,779)	(172,733)	(321,774)
Profit before tax	254,969	439,397	99,249	174,314
Income tax expense	(50,580)	(93,696)	(23,056)	(43,470)
Net profit	204,389	345,701	76,193	130,844
Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Net profit per ordinary share (in PLN)		2.65		1.00
Diluted net profit per ordinary share (in PLN)		2.65		1.00

Condensed statement of comprehensive income

<i>PLN '000</i>	Second quarter period from 01.04.10 to 30.06.10	Second quarter growing period from 01.01.10 to 30.06.10	Second quarter period from 01.04.09 to 30.06.09	Second quarter growing period from 01.01.09 to 30.06.09
Net income	204,389	345,701	76,193	130,844
Other comprehensive income:				
Valuation of financial assets available for sale (net)	(53,627)	78,094	43,695	7,001
Total income	150,762	423,795	119,888	137,845

Condensed balance sheet of the Bank

	State as at	30.06.2010	31.12.2009
PLN '000			
ASSETS			
Cash and balances with Central Bank		1,366,986	4,113,355
Financial assets held for trading		4,909,926	5,372,618
Debt securities available-for-sale		17,402,931	8,290,225
Equity investments		303,634	305,016
Loans and advances		12,817,013	15,940,293
<i>to financial sector</i>		2,264,971	5,043,395
<i>to non-financial sector</i>		10,552,042	10,896,898
Property and equipment		453,689	471,103
<i>land, buildings and equipment</i>		435,381	452,795
<i>investment property</i>		18,308	18,308
Intangible assets		1,276,458	1,278,793
Income tax assets		362,325	459,413
<i>current</i>		-	86,687
<i>deferred</i>		362,325	372,726
Other assets		240,331	205,077
Non-current assets held-for-sale		12,900	19,546
Total assets		39,146,193	36,455,439
LIABILITIES			
Liabilities to Central Bank		-	980,446
Financial liabilities held for trading		3,378,272	3,108,493
Financial liabilities valued at amortized cost		28,511,886	25,761,339
<i>deposits from</i>		27,317,885	25,408,506
<i>financial sector</i>		6,207,957	4,861,146
<i>non-financial sector</i>		21,109,928	20,547,360
<i>other liabilities</i>		1,194,001	352,833
Provisions		25,572	49,527
Deferred income tax liabilities		47,127	-
Other liabilities		1,119,949	421,011
Total liabilities		33,082,806	30,320,816
EQUITY			
Issued capital		522,638	522,638
Share premium		2,944,585	2,944,585
Revaluation reserve		(2,932)	(81,026)
Other reserves		2,253,395	2,223,274
Retained earnings		345,701	525,152
Total equity		6,063,387	6,134,623
Total liabilities and equity		39,146,193	36,455,439

Condensed statement of changes in equity of the Bank

<i>PLN '000</i>	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2010	522,638	2,944,585	(81,026)	2,223,274	525,152	6,134,623
Total income	-	-	78,094	-	345,701	423,795
Valuation of capital rewards program, including:	-	-	-	(2,444)	-	(2,444)
- valuation change	-	-	-	(1,666)	-	(1,666)
- income tax respite	-	-	-	(778)	-	(778)
Dividends to be paid	-	-	-	-	(492,587)	(492,587)
Transfer on capital	-	-	-	32,565	(32,565)	-
Balance as at 30 June 2010	522,638	2,944,585	(2,932)	2,253,395	345,701	6,063,387

<i>PLN '000</i>	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2009	522,638	2,944,585	(144,110)	1,570,673	645,664	5,539,450
Total income	-	-	7,001	-	130,844	137,845
Valuation of capital rewards program, including:	-	-	-	4,333	-	4,333
- valuation change	-	-	-	5,704	-	5,704
- income tax respite	-	-	-	(1,371)	-	(1,371)
Transfer on capital	-	-	-	645,664	(645,664)	-
Balance as at 30 June 2009	522,638	2,944,585	(137,109)	2,220,670	130,844	5,681,628

<i>PLN '000</i>	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2009	522,638	2,944,585	(144,110)	1,570,673	645,664	5,539,450
Total income	-	-	63,084	-	525,152	588,236
Valuation of capital rewards program, including:	-	-	-	6,937	-	6,937
- valuation change	-	-	-	8,917	-	8,917
- income tax respite	-	-	-	(1,980)	-	(1,980)
Transfer on capital	-	-	-	645,664	(645,664)	-
Balance as at 31 December 2009	522,638	2,944,585	(81,026)	2,223,274	525,152	6,134,623

Condensed summary statement of cash flows of the Bank

PLN '000	Second quarter growing Period from 01.01.10 to 30.06.10	Second quarter growing Period from 01.01.09 to 30.06.09
Cash at the beginning of reporting period	4,133,389	3,607,476
Cash flows from operating activities	(2,090,574)	(2,250,644)
Cash flows from investing activities	(4,203)	3,893
Cash flows from financing activities	(23,418))	(28,034)
Cash at the end of reporting period	2,015,194	1,332,691
Increase / Decrease in net cash	(2,118,195))	(2,274,785)

Condensed additional information**1. Conformity statement**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting*, as adopted by European Union and with other applicable regulations. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the financial year ended 31 December 2009.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No. 33, item 259 with further changes) the Bank publishes the financial results for the six months period ended 30 June 2010 which is deemed to be the current interim financial reporting period.

2. Significant accounting policies

Condensed interim unconsolidated financial statements of the Bank for the second quarter of 2010 have been prepared in accordance with the Decree by virtue of which the issuer, which is also a parent entity, is not obliged to provide the interim financial statements, on condition that it includes the condensed interim financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and abbreviated supplementary notes, comprising of information and data significant for the assessment of the financial position of the issuer and its profit or loss, with the interim consolidated financial statements. In addition, it's required to prepare the abbreviated interim financial statements in accordance with accounting principles adopted in the process of preparation of the annual financial statements.

Principles adopted in the process of preparation of these condensed interim consolidated financial statements for the second quarter of 2010 are consistent with the principles, described in the annual unconsolidated financial statements of the Bank as at 31 December 2009.

Other information and explanations to these condensed interim consolidated financial statements for the second quarter of 2010 contain all material information and explanatory data also relevant to the Bank's abbreviated interim financial statements.

A summary of the Bank's financial results for the second quarter of 2010 is presented below.

The Bank's financial results

During the first two quarters of 2010 the Bank has generated profit before tax of PLN 439 million in comparison to PLN 174 million in the same period of the year 2009. Profit before tax in the second quarter of 2010 reached PLN 255 million in comparison to PLN 99 million in the second quarter of 2009.

Cumulative net profit for the period from January to June reached PLN 346 million which is a rise of PLN 215 million in comparison to relative period last year while net profit for the second quarter of 2010 amounted to PLN 204 million in comparison to PLN 76 million during the same period of 2009.

Factors that influenced net profit of the Bank in the second quarter of 2010 were mainly: net write-downs for impairment of financial assets lower by PLN 84 million (i.e. 48.5%), growth of profit on financial instruments (trade financial instruments and revaluation, debt securities and investment capital instruments) by total amount of PLN 51 million (i.e. 57.8%), PLN 23 million rise in interest and commission result (i.e. 4.7%), fall in costs of operating, general administrative expenses and depreciation of PLN 4 million total (i.e. 1.2%) and dividends revenues lower by PLN 5 million (i.e. 28.8%).

The consolidated quarterly report for the second quarter of 2010 will be made available on the website of Bank Handlowy w Warszawie S.A. at www.citihandlowy.pl

Signature of the Vice Director of
Financial Reporting and Control Department

Signature of the Vice President of
Management Board

Date and signature

Date and signature

05.08.2010

05.08.2010

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