

CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
FOR THE PERIOD ENDED 30 JUNE 2009

AUGUST 2009

SELECTED FINANCIAL DATA	In PLN '000		In EUR '000***	
	First Half of 2009	First Half of 2008	First Half of 2009	First Half of 2008
Interest income	1,083,824	1,095,247	239,869	314,943
Fee and commission income	306,319	383,419	67,794	110,254
Profit before tax	161,964	441,357	35,845	126,914
Net profit	117,558	350,171	26,018	100,693
Increase of net cash	(2,273,230)	(919,495)	(503,105)	(264,405)
Total assets*	41,638,088	42,550,345	9,315,842	10,198,050
Amounts due to the Central Bank	1,928,386	-	431,445	-
Financial liabilities valued at amortized cost*	28,256,631	29,345,498	6,321,960	7,033,242
Shareholders' equity	5,756,387	5,231,116	1,287,898	1,559,572
Share capital	522,638	522,638	116,932	155,816
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	44.06	40.04	9.86	11.94
Earnings per ordinary share (PLN / EUR)	0.90	2.68	0.20	0.77
Diluted net profit per ordinary share (PLN / EUR)	0.90	2.68	0.20	0.77
Declared or distributed dividends per ordinary share (PLN / EUR)**	-	4.75	-	1.42

* Comparable data according to balance sheet as at 31 December 2008.

** The presented ratios are related to dividends paid in 2008 from the appropriation of the 2007 profit. In accordance with Resolution No. 26a/2009 of the Ordinary General Meeting of the Bank of 18 June 2009 no dividend for the year 2008 will be paid.

*** The following foreign exchange rates were applied to translate PLN into EUR: for the balance sheet - NBP mid exchange rate as at 30 June 2009 – PLN 4.4696 (as at 31 December 2008: PLN 4.1724; as at 30 June 2008 – PLN 3.3542); for the income statement and statement of cash flows- the arithmetic mean of end of month NBP mid exchange rates in the first half of 2009 - PLN 4.5184 (in the first half of 2008: PLN 3.4776).

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Condensed consolidated income statement

	For a period	01.01. - 30.06. 2009	01.01. - 30.06. 2008
<i>In thousands of PLN</i>	<i>Note</i>		
Interest and similar income	6	1,083,824	1,095,247
Interest expense and similar charges	6	(309,846)	(448,562)
Net interest income	6	773,978	646,685
Fee and commission income	7	306,319	383,419
Fee and commission expense	7	(51,370)	(54,024)
Net fee and commission income	7	254,949	329,395
Dividend income		5,925	4,716
Net income on financial instruments and revaluation	8	114,577	215,143
Net gain on investment debt securities	9	35,245	29,095
Net gain on investment capital instruments		3,437	(168)
Other operating income		48,350	61,121
Other operating expenses		(17,833)	(19,407)
Net other operating income	10	30,517	41,714
General administrative expenses	11	(682,422)	(742,514)
Amortization and depreciation		(42,840)	(49,831)
Profit / (loss) on sale of tangible fixed assets		2,103	1,447
Net impairment losses	12	(332,996)	(36,134)
Operating income		162,473	439,548
Share in (profits) / losses of subordinated undertakings accounted for under the equity method		(509)	1,809
Profit before tax		161,964	441,357
Income tax expense	13	(44,406)	(91,186)
Net profit		117,558	350,171
Weighted average number of ordinary shares (in pcs)		130,659,600	130,659,600
Net profit per ordinary share (in PLN)		0.90	2.68
Diluted net profit per ordinary share (in PLN)		0.90	2.68
Including:			
Net profit due to shareholders of dominant entity		117,558	350,171
Net profit due to minority shareholders		-	-

Explanatory notes on pages: 10 – 36 are integral parts of financial consolidated statement

Condensed consolidated statement of comprehensive income

	For a period	01.01. - 30.06. 2009	01.01. - 30.06. 2008
<i>In thousands of PLN</i>	<i>Note</i>		
Net income		117,558	350,171
Other comprehensive income:			
Net valuation of financial assets available for sale	14	7,001	(97,972)
Foreign exchange differences		1,742	(2,570)
Other comprehensive income after tax		8,743	(100,542)
Total comprehensive income		126,301	249,629
Including:			
Comprehensive income due to shareholders of predominant unit		126,301	249,629
Comprehensive income due to minority shareholders		-	-

Explanatory notes on pages: 10 – 36 are integral parts of financial consolidated statement.

Condensed consolidated balance sheet

<i>In thousands of PLN</i>	As at	<i>Note</i>	30.06.2009	31.12.2008
ASSETS				
Cash and balances with the Central Bank			1,196,545	3,530,977
Financial assets held-for-trading		15	9,125,375	7,885,488
Debt securities available-for-sale		16	12,039,321	10,814,828
Equity investments valued at the equity method			55,963	56,469
Other equity investments			9,881	11,095
Loans, advances and other receivables		17	16,492,808	17,581,499
<i>to financial sector</i>			3,101,244	3,695,522
<i>to non-financial sector</i>			13,391,564	13,885,977
Property and equipment			550,331	571,947
<i>Land, buildings and equipment</i>			532,023	553,639
<i>investment property</i>			18,308	18,308
Intangible assets			1,279,361	1,283,326
Deferred income tax assets			412,627	336,290
Other assets			451,140	443,159
Non-current assets held-for-sale			24,736	35,267
Total assets			41,638,088	42,550,345
LIABILITIES				
Amounts due to the Central Bank			1,928,386	-
Financial liabilities held-for-trading		15	4,852,599	6,806,790
Financial liabilities valued at amortized cost		19	28,256,631	29,345,498
<i>Deposits from</i>			26,946,898	27,857,332
<i>financial sector</i>			7,554,154	7,922,260
<i>non-financial sector</i>			19,392,744	19,935,072
<i>other liabilities</i>			1,309,733	1,488,166
Provisions			46,750	24,578
Income tax liabilities			-	77
Other liabilities			797,335	747,593
Total liabilities			35,881,701	36,924,536
EQUITY				
Share capital			522,638	522,638
Share premium			3,030,546	3,029,703
Revaluation of financial assets			(137,109)	(144,110)
Other reserves			2,225,635	1,627,692
Retained earnings			114,677	589,886
Total equity			5,756,387	5,625,809
Total liabilities and equity			41,638,088	42,550,345

Explanatory notes on pages: 10 – 36 are integral parts of financial consolidated statement.

Condensed consolidated statement of changes in equity

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

<i>In thousands of PLN</i>	Share capital	Share premium	Revaluation of financial assets	Other reserves	Retained earnings	Minority share	Total equity
Balance as at 1 January 2008	522,638	3,028,809	(182,450)	1,454,355	779,732	-	5,603,084
Comprehensive income	-	-	(97,972)	(2,570)	350,171	-	249,629
Dividends paid/ to be paid	-	(615)	-	-	(620,982)	-	(621,597)
Transfers to capital	-	1,509	-	167,789	(169,298)	-	-
Balance as at 30 June 2008	522,638	3,029,703	(280,422)	1,619,574	339,623	-	5,231,116

<i>In thousands of PLN</i>	Share capital	Share premium	Revaluation of financial assets	Other reserves	Retained earnings	Minority share	Total equity
Balance as at 1 January 2008	522,638	3,028,809	(182,450)	1,454,355	779,732	-	5,603,084
Comprehensive income	-	-	38,340	5,548	600,434	-	644,322
Dividends paid	-	(615)	-	-	(620,982)	-	(621,597)
Transfers to capital	-	1,509	-	167,789	(169,298)	-	-
Balance as at 31 December 2008	522,638	3,029,703	(144,110)	1,627,692	589,886	-	5,625,809

Explanatory notes on pages: 10 – 36 are integral parts of financial consolidated statement.

Condensed consolidated statement of cash flows

	For a period	01.01. - 30.06. 2009	01.01. - 30.06. 2008
<i>In thousands of PLN</i>			
A. Cash flows from operating activities			
I. Net profit (loss)		117,558	350,171
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:		(2,088,472)	(1,407,453)
Current and deferred income tax recognized in income statement		44,406	91,186
Share in net profits / (losses) of subordinated undertakings accounted for under the equity method		509	(1,809)
Amortization		42,840	49,831
Impairment		301,691	40,896
Net provisions (recoveries)		31,305	(4,762)
Gains/ losses on investing activities		(2,295)	(3,420)
Interest received		1,907,312	1,041,439
Interest paid		(303,410)	(496,429)
Other adjustments		(983,188)	(1,335,290)
Cash flows from operating profits before changes in operating assets and liabilities		1,039,170	(618,358)
Increase / decrease in operating assets (excl. cash and cash equivalents)		(2,196,651)	(386,989)
Increase / decrease in loans, advances and other receivables		175,384	(708,942)
Increase / decrease in debt securities available for sale		(1,210,044)	(252,226)
Increase / decrease in equity investments		891	(446)
Increase / decrease in assets held-for-trading		(1,240,563)	808,843
Increase / decrease in assets held-for-sale		2,887	-
Increase / decrease in other assets		74,794	(234,218)
Increase / decrease in operating liabilities (excl. cash and cash equivalents)		(930,991)	(402,106)
Increase / decrease in amounts due to the Central Bank		1,914,614	-
Increase / decrease in financial liabilities valued at amortized cost		(905,802)	(769,489)
Increase / decrease in liabilities held-for-trading		(1,994,500)	(546,813)
Increase / decrease in other liabilities		54,697	914,196
Cash flows from operating activities		(1,970,914)	(1,057,282)
Income tax paid		(124,939)	(60,849)
III. Net cash flows from operating activities		(2,095,853)	(1,118,131)
B. Cash flows from investing activities			
Purchase of tangible fixed assets		(18,952)	(17,266)
Disposal of tangible fixed assets		5,330	7,514
Purchase of intangible assets		(4,208)	(8,174)
Disposal of fixed assets available-for-sale		7,743	-
Dividends received		117	-
Other investing inflows/ outflows		-	3,239
Net cash flows from investing activities		(9,970)	(14,687)
C. Cash flows from financing activities			
Dividends paid		-	(615)
Inflows from long-term loans and advances from financial sector		-	240,300
Repayment of long-term loans from financial sector		(178,719)	(18,503)
Net cash flows from financing activities		(178,719)	221,182
D. Effect of exchange rate changes on cash and cash equivalent		11,312	(7,859)
E. Net (increase)/ decrease in cash and cash equivalent		(2,273,230)	(919,495)
F. Cash and cash equivalent at the beginning of the reporting period		3,607,530	3,746,323
G. Cash and cash equivalent at the end of the reporting period		1,334,300	2,826,828

Explanatory notes on pages: 10 – 36 are integral parts of financial consolidated statement.

Supplementary notes to the condensed consolidated financial statements

1. General information about the Bank's Capital Group

These condensed consolidated interim financial statements show 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 established by 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 the Capital City of Warsaw, XII Economic 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 its subordinated entities are expected to continue the business activity for an unspecified period of time.

Share capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with PLN 4.00 nominal value each. 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 commercial 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.

In the first half of 2009 there were no changes in the holding of shares in subordinates.

2. Statement of compliance

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 2008.

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) the Bank is required to publish the financial results for the six months ended June 30 2009 which is deemed to be the current interim financial reporting period.

These condensed consolidated interim financial statements were approved by the Board of Directors on 20 August 2009.

3. Significant accounting policies

The condensed interim consolidated financial statements of the Group for the first half of 2009 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 2008 and they take into consideration:

- the change, in reporting according to operation segments related to IFRS 8 '*Operating Segments*', which came into effect on 1 January 2009 and replaced IAS 14 'Segment reporting'. Detail information about segments is presented in Note No. 4.

- application of the Interpretation No. 13 of the International Financial Reporting Interpretations Committee "*Customer Loyalty Programmes*" (IFRIC 13). The interpretation deals with the way the transaction income should be recognized in case the customers are granted customer loyalty award credits, which is considered a separate component of a transaction. In view of that the transaction income should be split between award credits and other sale transaction components. The part attributable to the award credits, determined in respect of their fair value, is deferred until the obligations to customers resulting from award credits are fulfilled. The Group grants its customers loyalty award credits in transactions made by credit cards. The impact of the adoption of IFRIC 13 is not significant in respect of the consolidated financial statement.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Group's activity or would not have a material impact on the financial statements.

The condensed interim consolidated financial statements of the Group have been prepared for the period from 1 January 2009 to 30 June 2009. Comparable financial data is presented for the period from 1 January 2008 to 30 June 2008 and for Balance sheet as at 31 December 2008.

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

In order to retain comparability of the financial data with the current period presentation, adequate changes have been introduced to the way the financial data for 2008 have been presented, compared with the data previously published in the "Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2008". The changes concerned the manner of grouping and presentation of financial data in selected explanatory notes and have not impacted the balance sheet footing or the financial result of the Group.

4. Segment reporting

Since 1 January 2009 the Group has applied International Financial Reporting Standards (IFRS) 8 "*Operating segments*". Under this Standard an 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), whose operating results 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 main operating segments – Corporate Banking and Consumer Banking. The valuation of assets and liabilities as well as calculation of financial results of the segment complies with the Group's accounting policies, including intragroup transactions between segments.

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

– *Corporate Banking*

Within the Corporate Banking 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.

– *Retail Banking*

Within the Retail Banking 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 by business segment

For the period	01.01 – 30.06.2009			01.01 – 30.06.2008		
	Corporate Banking	Retail Banking	Total	Corporate Banking	Retail Banking	Total
<i>In thousands of PLN</i>						
Net interest income	385,801	388,177	773,978	267,271	379,414	646,685
<i>Internal interest income, including:</i>	23,712	(23,712)	-	(14,657)	14,657	-
<i>Internal income</i>	23,712	-	23,712	-	14,657	14,657
<i>Internal expenses</i>	-	(23,712)	(23,712)	(14,657)	-	(14,657)
Net fee and commission income	114,982	139,967	254,949	134,435	194,960	329,395
<i>Internal fee and commission income, including:</i>	3,425	(3,425)	-	1,498	(1,498)	-
<i>Internal income</i>	3,425	-	3,425	1,498	-	1,498
<i>Internal expenses</i>	-	(3,425)	(3,425)	-	(1,498)	(1,498)
Dividend income	3,189	2,736	5,925	2,469	2,247	4,716
Net income on financial instruments and revaluation	94,084	20,493	114,577	197,581	17,562	215,143
Net gain on investment debt securities	35,245	-	35,245	29,095	-	29,095
Net gain on investment capital instruments	3,437	-	3,437	(168)	-	(168)
Net other operating income	34,596	(4,079)	30,517	42,427	(713)	41,714
General administrative expenses	(298,320)	(384,102)	(682,422)	(331,015)	(411,499)	(742,514)
Depreciation and amortization	(27,303)	(15,537)	(42,840)	(34,119)	(15,712)	(49,831)
Profit / (loss) on sale of fixed assets	1,896	207	2,103	1,223	224	1,447
Net impairment losses	(230,944)	(102,052)	(332,996)	8,887	(45,021)	(36,134)
Operating income	116,663	45,810	162,473	318,086	121,462	439,548
Share in (profits) / losses of subordinated undertakings accounted for under the equity method	(509)	-	(509)	1,809	-	1,809
Profit before tax	116,154	45,810	161,964	319,895	121,462	441,357
Income tax expense			(44,406)			(91,186)
Net profit			117,558			350,171

As at:	30.06.2009			31.12.2008		
Total assets, including	35,658,899	5,979,189	41,638,088	36,664,647	5,885,698	42,550,345
Assets valued at the equity method	55,963	-	55,963	56,469	-	56,469
Fixed assets held-for-sale	24,736	-	24,736	35,267	-	35,267
Total liabilities and equity, including:	33,720,412	7,917,676	41,638,088	34,703,600	7,846,745	42,550,345
Total liabilities	29,753,330	6,107,354	35,860,684	30,766,848	6,157,688	36,924,536

5. Risk Management

Credit Risk

The Group follows a uniform, intrinsic system for classification of accounts receivable against preset criteria. Active management process of portfolio quality includes both assigning proper risk rating and classification to facilities and also adaptation of remedial and vindication actions to facility classification. Assigning the facility risk ratings and classification system are crucial when defining the level of provisions due to impairment.

In the first half of 2009 there were no significant changes in systems, processes and procedures of the credit risk management. Considering dynamically changing market conditions changes in credit granting procedures were implemented in order to mitigate credit risk.

The tables below present direct exposure of the Group to credit risk together with write-downs for impairment whereas the accounts payable to customers, with established value loss, have been grouped for presentation purposes into risk categories using classification and without impairment has been presented using the internal risk ratings, and the accounts payable. In order to define the maximum exposure of the Group to the credit risk, it is necessary to account also for the off-balance sheet exposure (discussed in Note 26), the debt securities available for sale (discussed in Note 16), the financial assets held for trading (discussed in Note 15).

In thousands PLN

	30.06.2009		31.12.2008	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Receivables with recognized value loss				
Individually assessed receivables				
Risk category II	317,131	-	187,007	-
Risk category III	373,186	-	207,887	-
Risk category IV	1,025,998	2,414	994,211	2,253
Gross value	1,716,315	2,414	1,389,105	2,253
Impairment	1,145,792	2,414	1,000,523	2,253
Net value	570,523	-	388,582	-
Collectively assessed receivables				
Risk category II	36,484	-	18,767	-
Risk category III	42,975	-	24,283	-
Risk category IV	609,958	-	498,748	-
Gross value	689,417	-	541,798	-
Impairment	477,352	-	389,528	-
Net value	212,065	-	152,270	-

In thousands PLN

	30.06.2009		31.12.2008	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Not impaired receivables				
Risk rating 1–4	9,827,134	2,674,268	12,304,080	2,875,124
Risk rating 5–6	2,714,027	8,633	1,394,529	43,272
Risk rating 7–8	592,680	-	395,002	101,129
Gross value	13,133,841	2,682,901	14,093,611	3,019,525
Impairment	106,359	163	70,701	1,788
Net value	13,027,482	2,682,738	14,022,910	3,017,737
Total net value	13,810,070	2,682,738	14,563,762	3,017,737

In thousands PLN

	30.06.2009		31.12.2008	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Impairment value for receivables with recognized value loss				
Impairment value for receivables assessed individually				
Risk category II	53,821	-	20,234	-
Risk category III	146,194	-	69,974	-
Risk category IV	945,777	2,414	910,315	2,253
	1,145,792	2,414	1,000,523	2,253
Impairment value for receivables assessed collectively				
Risk category II	9,169	-	4,322	-
Risk category III	12,638	-	7,551	-
Risk category IV	455,545	-	377,655	-
	477,352	-	389,528	-
Incurred but not recognized (IBNR) losses				
Risk rating 1–4	77,265	142	54,865	2
Risk rating 5–6	12,364	21	6,178	322
Risk rating 7–8	16,730	-	9,658	1,464
	106,359	163	70,701	1,788
Total net value	1,729,503	2,577	1,460,752	4,041

In thousands PLN

	30.06.2009	31.12.2008
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
0–30 days	15,721,772	16,992,453
Overdue receivables		
31–90 days	92,386	120,639
91–180 days	2,496	44
181–365 days	88	-
Gross value	15,816,742	17,113,136

Market Risk

Market risk management encompasses two principal risk areas: liquidity risk and price risk.

Liquidity risk is defined as the risk that the Group may not be able to meet its financial commitments to customers or counterparties when due.

Price risk is the risk of negative impact on the Group's earnings or value of the capital resulting from the changes in market interest rates, foreign exchange rates, and equity prices as well all volatilities of these rates and prices.

The objective of price risk management is to ensure that the extent of price risk accepted within the scope of Group corresponds to the level acceptable to shareholders and banking supervision authorities, as well as to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group.

In the first half of 2009 there were no significant changes in processes, procedures, systems and policies of the market risk management.

Liquidity risk

In accordance with Resolution No. 386/2008 of the Financial Supervision Authority of 17 December 2008 on determining liquidity standards binding for banks the Bank is obliged to calculate the following liquidity measures:

- M1 – the short-term liquidity gap,
- M2 – the short-term liquidity ratio,
- M3 – the ratio of coverage of non-liquid assets in own capital funds,
- M4 – the ratio of coverage of non-liquid assets and limited liquidity assets in own capital funds and stable external funds.

In accordance with the Resolution the liquidity gap should be positive and all of the ratios should be higher than 1 for every working day.

The levels of liquidity measures in the first half of 2009 are shown in the table below.

Liquidity measure	30.06.2009	31.12.2008	Overall between 01.01.2009 and 30.06.2009		
			Average	Minimum	Maximum
M1 (In millions of PLN)	9,328	5,625	8,603	4,793	10,571
M2	1.50	1.35	1.47	1.19	1.87
M3	5.92	5.07	5.08	4.72	6.24
M4	1.77	1.65	1.71	1.63	1.89

The supplementary measure of the assessment of liquidity risk is the level of the modified gap in financial flows in respect of the potential sources of financing. Therefore, the gap level is compared with the possibility of obtaining additional funding from the wholesale market (other banks, investment funds, pension funds, insurance companies) and with the balance of liquid assets (mainly liquid securities), which may be sold or pledged (as part of repo transactions or at use of a pawn loan from NBP) in the assumed time horizon.

The levels of the modified gap in financial flows and the level of liquid assets as at 31 December 2008 and 30 June 2009 are shown in the tables below.

The liquidity gap as at 30 June 2009 in real terms:

<i>In thousands of PLN</i>	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	5,095,780	144,798	34,621	-	36,362,889
Liabilities	4,082,133	71,494	1,813,890	336,751	35,333,820
Balance sheet gap in the period	1,013,647	73,304	(1,779,269)	(336,751)	1,029,069
Off-balance sheet transactions – inflows	10,701,256	4,266,438	5,900,085	3,170,063	5,700,199
Off-balance sheet transactions – outflows	12,380,281	4,848,231	6,101,336	3,145,216	3,362,841
Off-balance sheet gap in the period	(1,679,025)	(581,793)	(201,251)	24,847	2,337,358
Cumulative gap	(665,378)	(1,173,867)	(3,154,387)	(3,466,291)	(99,864)

The liquidity gap as at 31 December 2008 in real terms:

<i>In thousands of PLN</i>	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	4,261,460	686,524	989,882	12,517	36,599,962
Liabilities	7,049,895	94,153	870,108	315,248	34,220,941
Balance sheet gap in the period	(2,788,435)	592,371	119,774	(302,731)	2,379,021
Off-balance sheet transactions – inflows	7,294,723	6,124,796	10,871,352	1,752,153	4,512,902
Off-balance sheet transactions – outflows	6,535,615	6,017,968	10,810,675	1,738,723	5,563,943
Off-balance sheet gap in the period	759,108	106,828	60,677	13,430	(1,051,041)
Cumulative gap	(2,029,327)	(1,330,128)	(1,149,677)	(1,438,978)	(110,998)

The liquid assets and the cumulative liquidity gap up to 1 year:

<i>In thousands of PLN</i>	30.06.2009	31.12.2008	Change
Liquid assets, including:	16,965,524	15,247,016	1,718,508
obligatory reserve in NBP and stable part of cash	818,114	3,183,925	(2,365,811)
debt securities held for trade	4,108,089	1,248,263	2,859,826
debt securities available for sale	12,039,321	10,814,828	1,224,493
Cumulative liquidity gap up to 1 year	(3,154,387)	(1,149,677)	(2,004,710)
Coverage of the gap with liquid assets	538%	1,326%	

Pricing risk

The Group typically uses the following methods for measuring the pricing risk of the bank portfolios:

- Interest Rate Exposure (IRE),
- Factor Sensitivity – Basis Point Value (BPV/DV01).

The IRE measures for the Group as at 30 June 2009 and 31 December 2008 are presented below. The list has been broken down into the main currencies, i.e. PLN, USD and EUR, which jointly account for over 90% of the Group's balance sheet.

<i>In thousands of PLN</i>	30.06.2009		31.12.2008	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	(18,856)	40,476	7,642	104,071
USD	4,417	14,477	(394)	3,351
EUR	5,133	(14 633)	(8,836)	(42,808)

The table below depicts the risk measured with DV01 for the portfolio of securities available for sale broken down into currency portfolios:

<i>In thousands of PLN</i>	30.06.2009	Overall between 01.01.2009 and 30.06.2009		
		Average	Maximum	Minimum
PLN	(1,349)	(1,443)	(1,253)	(1,643)
USD	(44)	(72)	(38)	(104)
EUR	(650)	(764)	(646)	(880)

<i>In thousands of PLN</i>	31.12.2008	Overall between 01.01.2008 and 31.12.2008		
		Average	Maximum	Minimum
PLN	(1,246)	(1,267)	(1,368)	(1,144)
USD	(99)	(116)	(420)	-
EUR	(766)	(856)	(1,187)	(657)

Additionally, the Bank uses the following methods:

- Interest rate gap analysis,
- Value-at-Close and Total Return methods,
- Stress testing.

Measurement of the pricing risk of the bank portfolios

The following methods are applicable in measurement of risk of trading portfolios:

- Factor Sensitivity,
- Value at Risk (VaR), and
- Stress testing.

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01 in the first half of 2009 have been listed in the table below:

<i>In thousands of PLN</i>	30.06.2009	31.12.2008	Overall between 01.01.2009 and 30.06.2009		
			Average	Maximum	Minimum
PLN	(503)	(42)	(169)	319	(655)
EUR	(70)	23	(15)	89	(114)
USD	(37)	(10)	(23)	12	(82)

The marked exposure to the interest rates risk, in the first half of 2009, compared with the year 2008 remains on slightly higher level. The FX structure of the position has not changed significantly. Higher exposure was taken in LCY (average DV01 was at the –169 thousand PLN level comparing to –121 thousand PLN in 2008) and USD (average DV01 was at the –23 thousand PLN level comparing to –7 thousand PLN in 2008) while the risk appetite in EUR was lower (average position was 22 thousand PLN lower than in 2008). What's regarding the maximum position taken by Treasury they were higher for LCY and USD (i.e. maximum position in LCY was –655 thousand PLN comparing to –515 thousand PLN in 2008) and lower for EUR –114 thousand PLN comparing to –218 thousand PLN in 2008).

The table below shows the levels of risk measured using the VaR broken down into the FX risk and the interest rate risk positions in the first half of 2009:

<i>In thousands of PLN</i>	30.06.2009	31.12.2008	Overall between 1.01.2009 and 30.06.2009		
			Average	Maximum	Minimum
FX risk	7,927	114	7,444	17,047	109
Interest rate risk	8,042	3,511	6,279	14,427	1,956
Overall risk	9,158	3,514	8,888	17,619	2,248

The overall average price risk of financial assets held for trading in the first half of 2009 was approximately PLN 5 million, in other words, significantly higher than the same average risk registered in 2008, which resulted primarily from a material increase in the portfolio of financial assets held for trading of currency exposures and of items exposed to interest rate risk as well as from increased volatility of the key market factors. The maximum risk levels were significantly higher than in 2009. Specifically, the maximum price risk reached PLN 17.6 million, when in 2008 it was PLN 14.6 million

Capital instruments risk

The Dom Maklerski Banku Handlowego S.A. (DM BH) is the Group's key company transacting the capital instruments. In order to run its core business, DMBH has been authorized to take up the pricing risk of the trading portfolio of shares, or share rights, traded, or likely to be traded on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE), or Centralna Tabela Ofert (Central Bids Table or CTO), WIG20 futures and the Indexed Participation Units, as well as shares on the international stock exchanges of the companies listed on the WSE. The market risk of DM BH's trading portfolio positions should be considered immaterial.

Currency exhibition of the Group

Currency structure of assets and liabilities of the Group with main currency is presented in the following table:

30 June 2009

In thousands of PLN

	Balance transaction		Off balance transaction		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	5,064,928	6,216,539	11,347,062	9,920,761	274,690
USD	1,954,582	3,317,608	7,120,946	5,655,919	102,001
GBP	838,215	867,612	139,561	106,679	3,485
CHF	684,069	425,559	727,060	980,776	4,794
Other currencies	239,693	321,389	920,330	883,954	(45,320)
	8,781,487	11,148,707	20,254,959	17,548,089	339,650

31 December 2008*In thousands of PLN*

	Balance transaction		Off balance transaction		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	4,916,401	5,257,506	11,890,724	11,479,544	70,075
USD	2,929,613	3,307,388	4,855,201	4,496,077	(18,651)
GBP	411,184	518,265	303,154	190,099	5,974
CHF	543,561	607,254	350,563	269,775	17,095
Other currencies	442,909	430,188	520,318	553,579	(20,540)
	9,243,668	10,120,601	17,919,960	16,989,074	53,953

Operational risk

In the first half of 2009 there were no significant changes in the Group's operational risk management.

Capital adequacy

In the first half of 2009 the Group fulfilled the prudential regulations as far as Capital adequacy is concerned. Capital adequacy ratio is calculated consistently with respective regulations of the Polish law.

6. Interest income*In thousands of PLN*

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Interest and similar income from:		
Central Bank	24,361	23,536
Placements with other banks	44,353	177,007
Loans, advances and other receivables (in respect of):	658,911	682,030
<i>financial sector</i>	10,463	8,832
<i>non-financial sector</i>	648,448	673,198
Debt securities available-for-sale	272,288	171,383
Debt securities held-for-trading	83,911	41,291
	1,083,824	1,095,247
Interest expense and similar charges for:		
Central Bank	(13,772)	-
Deposits from other banks	(14,847)	(26,566)
Deposits from financial sector (excl. banks)	(52,193)	(63,763)
Deposits from non-financial sector	(218,985)	(341,407)
Loans and advances acquired	(10,049)	(16,826)
	(309,846)	(448,562)
	773,978	646,685

Net interest income for the first half of 2009 includes interest received on impaired loans, of PLN 8,641 thousand (for the first half of 2008: PLN 7,825 thousand).

7. Net fee and commission income*In thousands of PLN*

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Fee and commission income:		
Sales intermediary of insurance and investment products	79,117	126,011
Payment and credit cards	78,996	81,264
Payment services	58,516	65,339
Custody services	30,158	42,250

<i>In thousands of PLN</i>	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Brokerage activity	22,261	30,894
Cash management	15,933	17,486
Off-balance sheet guarantee liabilities	8,226	7,416
Off-balance sheet financial liabilities	4,044	3,387
Other	9,068	9,372
	306,319	383,419
<i>Fee and commission expense:</i>		
Payment and credit cards	(31,860)	(26,724)
Brokerage activity	(10,187)	(16,781)
Fees paid to the National Depository for Securities (KDPW)	(3,544)	(4,477)
Brokers fees	(1,970)	(3,290)
Other	(3,809)	(2,752)
	(51,370)	(54,024)
	254,949	329,395

The net commission result for the first half of 2009 comprises commission incomes (other than incomes covered by the calculation of the effective interest rate process), which are related to financial assets and liabilities not valued at their fair value through profit and loss account in the amount of PLN 83,808 thousand (for the first half of 2008: PLN 86,699 thousand) and commission expenses in the amount of PLN 31,860 thousand (for the first half of 2008: PLN 26,724 thousand).

8. Net gain on financial instruments and revaluation

<i>In thousands of PLN</i>	01.01. – 30.06. 2009	01.01. – 30.06. 2008
<i>Net income on financial instruments valued at fair value through profit and loss account:</i>		
Debt instruments	14,361	2,916
Capital instruments	797	(630)
Investment certificates	-	2
Derivative instruments (in respect of):	(22,585)	(8,136)
<i>Interest rate derivatives</i>	(23,451)	(8,175)
<i>Equity derivatives</i>	745	-
<i>Commodity derivatives</i>	121	39
	(7,427)	(5,848)
<i>Net income on FX operations</i>		
Operations on FX derivative instruments	(168,181)	371,217
FX gains and losses (revaluation)	290,185	(150,226)
	122,004	220,991
	114,577	215,143

Included in net income on financial instruments and revaluation are losses resulting from increased counterparty credit risk on derivative transactions in the amount of PLN 62,842 thousand (for the first half of 2008: PLN 5,355 thousand).

The losses were determined through the assessment of the clients' financial standing and their needs to use derivative instruments. The amounts at which the derivative transactions will be settled remain uncertain and the actual losses depend on the changes in the future foreign exchange rates and counterparties' financial standing.

Net income from debt instruments includes the net results on trading in government securities, corporate debt securities and money market instruments.

Income from derivative instruments comprises net income on interest rate swaps, options, futures and other derivatives.

Net result on FX operations contains gains and losses from revaluation of assets and liabilities denominated in foreign currency and from FX derivative instruments like forward, swap and options. Net result on FX operations also contains margin executed on current and fixed currency transactions.

9. Net gain on investment debt securities

In thousands of PLN

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Profits realized on available-for-sale securities	35,279	29,174
Losses realized on available-for-sale securities	(34)	(79)
	35,245	29,095

10. Net other operating income

In thousands of PLN

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Other operating income:		
Income from data processing for related entities	30,146	28,589
Income from amounts due vindication	-	7,477
Office rental income	1,922	1,604
Income from investment property	1,142	974
Other	15,140	22,477
	48,350	61,121
Other operating expenses:		
Vindication expenses	(4,349)	(5,724)
Expenses related to investment property	(3,375)	(546)
Other	(10,109)	(13,137)
	(17,833)	(19,407)
	30,517	41,714

11. General administrative expenses

In thousands of PLN

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Staff costs		
Remuneration costs, including:	(267,183)	(321,277)
Provisions for retirement benefits	(8,305)	(9,248)
Perks and rewards including:	(70,836)	(71,568)
Payments related to own equity instruments	(4,202)	(677)
	(338,019)	(392,845)
Administrative expenses		
Telecommunication fees and hardware purchases costs	(81,887)	(74,371)
Advisory, audit, consulting and other services costs	(84,918)	(82,888)

In thousands of PLN

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Building maintenance and rent costs	(63,889)	(53,012)
Marketing	(15,146)	(36,587)
Transaction costs	(28,247)	(31,319)
Postal services, office supplies and printmaking costs	(19,888)	(15,469)
Training and education costs	(3,896)	(5,461)
Bank supervision costs	(4,482)	(3,904)
Other expenses	(42,050)	(46,658)
	(344,403)	(349,669)
	(682,422)	(742,514)

Staff expenses in first half of 2009 include PLN 7,565 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in first half of 2008: PLN 10,219 thousand).

12. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
<i>Impairment write-downs:</i>		
Loans and advances valued at amortized cost	(317,347)	(155,605)
Receivables resulting from matured derivative transactions	(215,014)	-
Other	(8,641)	(7,825)
	(541,002)	(163,430)
<i>Reversals of impairment write-downs:</i>		
Loans and advances valued at amortized cost	148,633	122,534
Receivables resulting from matured derivative transactions	90,678	-
	239,311	122,534
	(301,691)	(40,896)

Net charges to/(releases) of provisions for off-balance sheet liabilities:

In thousands of PLN

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Charges to provisions for off-balance sheet commitments	(45,521)	(21,508)
Releases of provisions for off-balance sheet commitments	14,216	26,270
	(31,305)	4,762
<i>Net impairment losses</i>	(332,996)	(36,134)

13. Income tax expense

Recognized in the income statement

In thousands of PLN

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Current tax:		
Current year	(121,940)	(2,860)
Adjustments for prior years	(640)	(1,365)
	(122,580)	(4,225)
Deferred tax:		
Origination and reversal of temporary differences	78,550	(88,401)
Changes in receivables arising from tax deductions	(376)	(259)
Other	-	1,699
	78,174	(86,961)
Income tax expense	(44,406)	(91,186)

Reconciliation of effective tax rate:

In thousands of PLN

	01.01. – 30.06. 2009	01.01. – 30.06. 2008
Profit before tax	161,964	441,357
Income tax at the domestic tax rate of 19%	(30,774)	(83,858)
Expenses not tax deductible	(11,620)	(5,764)
Taxable income not recognized in income statement	(46,167)	(2,222)
Deductible expenses not recognized in income statement	38,665	3,043
Non taxable income	6,917	366
Other	(1,427)	(2,751)
Income tax expense	(44,406)	(91,186)
Effective tax rate	27%	21%

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 30 June 2009 is related to debt and capital instruments available-for-sale and amounts to PLN 30,926 thousand (30 June 2008: PLN 65,778 thousand).

14. Statement of changes in other comprehensive income

Deferred income tax and reclassification recognized in other comprehensive income are related to the valuation of financial assets available-for-sale (AFS).

In thousands of PLN

	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2009	(177,832)	33,722	(144,110)
Change in valuation of AFS	43,671	(8,122)	35,549
Valuation of sold AFS moved to income statement	(35,245)	6,697	(28,548)
Balance as at 30 June 2009	(169,406)	32,297	(137,109)

In thousands of PLN

	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2008	(225,247)	42,797	(182,450)
Change in valuation of AFS	(91,859)	17,454	(74,405)
Valuation of sold AFS moved to income statement	(29,095)	5,528	(23,567)
Balance as at 30 June 2008	(346,201)	65,779	(280,422)

15. Financial assets and liabilities held-for-trading*In thousands of PLN***30.06.2009****31.12.2008*****Financial assets held for trading*****Debt securities held for trading**

Bonds and notes issued by:

Financial sector

-

3,185

State Treasury

4,108,089

1,219,013

Other debt securities issued by:

Banks

-

26,065

4,108,089**1,248,263***In respect of:**Listed*

1,716,415

721,127

Unlisted

2,391,674

527,136

Equity instruments*In respect of:**Listed*

3,358

952

*Unlisted**

-

28,000

Derivatives**5,013,928****6,608,273****9,125,375****7,885,488*****Financial liabilities held- for- trading****In thousands of PLN***30.06.2009****31.12.2008**

Short positions in financial assets

1,375

-

Derivative financial instruments

4,851,224

6,806,790

4,852,599**6,806,790**

*As at 31 December 2008 financial assets held for trading include PLN 28,000 thousand of shares' value of the company Polskie Towarzystwo Reasekuracji S.A., which were sold on 12 January 2009. Details of the transaction are presented in note No. 30.

As at 30 June 2009 and 31 December 2008 the Group did not hold any financial assets and liabilities designated for valuation at fair value through the profit and loss account at initial recognition.

As at 30 June 2009 derivative financial assets were adjusted due to increased counterparty credit risk by the amount of PLN 78,656 thousand (as at 31 December 2008: PLN 233,497 thousand).

Derivative financial instruments as at 30 June 2009

In thousands of PLN

	Notional amount of derivatives with remaining life of				Total	Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	15,019,714	79,124,216	57,573,793	27,457,932	179,175,655	2,906,111	2,949,813
Currency instruments	19,691,979	13,170,552	3,556,847	779,052	37,198,430	2,098,733	1,892,399
Securities transactions	509,801	12,000	51,639	-	573,440	8,849	8,777
Commodity transactions	29,632	13,176	-	-	42,808	235	235
Derivative instruments total	35,251,126	92,319,944	61,182,279	28,236,984	216,990,333	5,013,928	4,851,224

Derivative financial instruments as at 31 December 2008

In thousands of PLN

	Notional amount of derivatives with remaining life of				Total	Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	15,398,442	128,402,320	81,870,532	27,995,099	253,666,393	3,240,873	3,445,108
Currency instruments	20,485,768	23,588,551	6,948,407	727,190	51,749,916	3,357,190	3,352,109
Securities transactions	274,615	98,000	22,885	-	395,500	1,380	743
Commodity transactions	23,268	19,144	-	-	42,412	8,830	8,830
Derivative instruments total	36,182,093	152,108,015	88,841,824	28,722,289	305,854,221	6,608,273	6,806,790

16. Debt securities available-for-sale

<i>In thousands of PLN</i>	30.06.2009	31.12.2008
Bonds and notes issued by:		
Central Bank	2,499,510	2,383,387
Non-financial sector	36,269	21,929
State Treasury	9,483,542	8,409,512
Local government bodies	20,000	-
	12,039,321	10,814,828
<i>In respect of:</i>		
Listed instruments	9,483,542	7,081,278
Unlisted instruments	2,555,779	3,733,550

17. Loans, advances and other receivables

<i>In thousands of PLN</i>	30.06.2009	31.12.2008
<i>Loans, advances and other receivables to the financial sector:</i>		
Current accounts of banks	136,421	76,553
Loans, placements and advances, including:	2,981,270	2,721,417
<i>placements in banks</i>	2,502,866	1,917,991
Purchased receivables	16,420	15,152
Realized guarantees	267	249
Receivables related to reverse repo transactions	1,961	877,484
Other receivables	40,879	82,294
Total gross value	3,177,218	3,773,149
Impairment write-offs	(75,974)	(77,627)
Total net value	3,101,244	3,695,522
<i>Loans and advances to the non-financial sector:</i>		
Loans and advances	13,388,112	13,538,021
Purchased receivables	229,632	241,156
Realized guarantees	43,695	41,502
Other receivables	1,386,231	1,452,464
Total gross value	15,047,670	15,273,143
Impairment write-offs	(1,656,106)	(1,387,166)
Total net value	13,391,564	13,885,977
<i>Loans, advances and other receivables</i>	16,492,808	17,581,499

Finance lease receivables

The Group operates on the leasing market through its subordinated entity Handlowy-Leasing Sp. z o.o. The Group provides finance leases of vehicles, machines and equipment.

Included in loans, advances and other receivables to the non-financial sector are the following amounts relating to finance lease receivables:

<i>In thousands of PLN</i>	30.06.2009	31.12.2008
Gross finance lease receivables	1,516,868	1,595,415
Unearned finance income	(134,370)	(150,257)
Net finance lease receivables	1,382,498	1,445,158

As at 30 June 2009 impairment for unrecoverable finance lease receivables amounted to PLN 58,983 thousand (as at 31 December 2008 amounted PLN 45,759 thousand).

Finance lease income is presented in interest income.

18. Impairment of loans and advances

The change in impairment of loans and advances is as follows:

<i>In thousands of PLN</i>	01.01. - 30.06. 2009	01.01. - 31.12. 2008
Balance as at 1 January	1,464,793	1,431,458
Related to:		
Receivables from banks	4,041	1,886
Receivables from other customers of financial and non- financial sector	1,460,752	1,429,572
Change in impairment write-downs:	267,287	33,335
Charges	317,347	387,430
Write-offs	(15,454)	(107,771)
Amounts released	(148,633)	(248,644)
Net write-downs for receivables resulting from matured derivative transactions	124,336	-
Other	(10,309)	2,320
Balance as at end of period	1,732,080	1,464,793
Related to:		
Receivables from banks	2,577	4,041
Receivables from other customers of financial and non-financial sector	1,729,503	1,460,752

The closing balance of recognized impairment of loans and advances to customers consisted of:

<i>In thousands of PLN</i>	30.06.2009	31.12.2008
Impairment on exposures subject to portfolio impairment assessment	477,352	389,528
Impairment on exposures subject to individual impairment assessment	1,148,206	1,002,776
Incurred but not reported losses (IBNR)	106,522	72,489

19. Financial liabilities valued at amortized cost***Financial liabilities valued at amortized cost (by category)****In thousands of PLN****Deposits from financial sector:***

	30.06.2009	31.12.2008
Current accounts, including:	1,731,900	2,089,692
<i>Current accounts of banks</i>	977,407	1,212,394
Deposits, including:	5,817,727	5,828,349
<i>Term deposits of banks</i>	1,259,703	2,122,493
Accrued interest	4,527	4,219
	7,554,154	7,922,260

Deposits from non-financial sector:

Current accounts, including:	7,611,563	7,476,940
<i>Corporate customers</i>	2,916,639	3,336,662
<i>Individual customers</i>	3,521,632	3,181,256
<i>Budgetary units</i>	678,714	611,357
Deposits, including:	11,759,414	12,431,216
<i>Corporate customers</i>	8,346,399	8,457,649
<i>Individual customers</i>	1,960,181	2,291,343
<i>Budgetary units</i>	810,430	1,171,453
Accrued interest	21,767	26,916
	19,392,744	19,935,072

Deposits

26,946,898	27,857,332
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Other liabilities:

Loans and advances received	1,082,418	1,253,420
Other liabilities, including:	224,504	229,928
<i>Cash collateral</i>	146,599	156,858
Accrued interest	2,811	4,818
	1,309,733	1,488,166
	28,256,631	29,345,498

20. Financial assets and liabilities by maturity date

As at 30 June 2009

<i>In thousands of PLN</i>	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Financial assets held for trading							
Debt securities held for trading	15	4,108,089	4,095	21,082	2,836,927	1,152,227	93,758
Financial assets available-for-sale							
Debt securities available-for-sale	16	12,039,321	2,499,510	-	2,138,817	4,291,666	3,109,328
Loans, advances and other receivables - gross							
Loans, advances and other receivables to the financial sector (in respect of):	17	3,177,218	2,655,688	153,885	106,778	245,000	15,867
<i>banks and other monetary financial institutions</i>	17	2,684,726	2,473,533	149,415	61,778	-	-
<i>other financial institutions</i>	17	492,492	182,155	4,470	45,000	245,000	15,867
Loans, advances and other receivables to the non-financial sector	17	15,047,670	7,975,163	619,738	1,805,009	4,164,677	483,083
Financial liabilities valued at amortized cost							
Financial sector (in respect of):	19	8,645,488	6,357,082	48,064	1,811,920	345,474	82,948
<i>banks and other monetary financial institutions</i>	19	4,212,940	1,974,838	7,717	1,806,540	340,908	82,937
<i>other financial institutions</i>	19	4,432,548	4,382,244	40,347	5,380	4,566	11
Non-financial sector	19	19,611,143	17,811,658	1,353,896	407,434	37,998	157

As at 31 December 2008

<i>In thousands of PLN</i>	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
<i>Financial assets held for trading</i>							
Debt securities held for trading	15	1,248,263	501,071	15,318	343,729	314,089	74,056
<i>Financial assets s available-for-sale</i>							
Debt securities available-for-sale	16	10,814,828	2,460,631	395,668	926,086	3,653,999	3,378,444
<i>Loans, advances and other receivables – gross</i>							
Loans, advances and other receivables to the financial sector (in respect of):	17	3,773,149	1,699,355	737,457	1,064,011	257,517	14,809
<i>banks and other monetary financial institutions</i>	17	3,043,803	1,323,990	712,457	994,839	12,517	-
<i>other financial institutions</i>	17	729,346	375,365	25,000	69,172	245,000	14,809
Loans, advances and other receivables to the non-financial sector	17	15,273,143	8,112,006	844,619	1,558,933	4,242,433	515,152
<i>Financial liabilities valued at amortized cost</i>							
Financial sector (in respect of):	19	9,184,286	7,841,527	45,665	869,122	338,273	89,699
<i>banks and other monetary financial institutions</i>	19	4,594,298	3,294,964	13,223	862,901	333,530	89,680
<i>other financial institutions</i>	19	4,589,988	4,546,563	32,442	6,221	4,743	19
Non-financial sector	19	20,161,212	18,474,372	1,321,039	338,368	27,345	88

21. Seasonal or cyclical nature of the business activity

The business activity of the Group does not involve significant events that would be subject to seasonal or cyclical variations.

22. Issue, redemption and repayment of debt and equity securities

No debt or equity securities were issued, bought out or repaid in the first half of 2009.

23. Paid or declared dividends

In accordance with Resolution No. 26a/2009 of the Ordinary General Meeting of the Bank of 18 June 2009 the profit for 2008 was distributed, and a resolution that no dividend for the year 2008 will be paid was adopted. The profit for 2008 was assigned for increasing the shareholders' equity.

24. Changes in the Group's structure

In the first half of 2009 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.

25. Significant events after the balance sheet date not included in the financial statements

As at 30 June 2009 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.

26. Changes in off-balance sheet liabilities

As at 30 June 2009 in comparison with the end of 2008 there were no significant changes as far as contingent liabilities granted and acquired are concerned.

The changes in off-balance sheet liabilities comparing with the end of 2008, concerned mainly liabilities related to the realization of buying/selling operations, i.e. the decrease of futures transactions amount – including FRA and IRS transactions.

The off-balance sheet liabilities are as follows:

<i>In thousands of PLN</i>	30.06.2009	31.12.2008
Contingent liabilities		
Commitments granted		
a) financial	11,462,653	11,167,239
<i>Import letters of credit issued</i>	224,832	188,228
<i>Lines of credit granted</i>	11,027,472	10,949,511
<i>Forward placement</i>	210,349	-
<i>Subscription of securities granted to other issuers</i>	-	29,500
b) guarantees	1,970,401	2,359,209
<i>Guarantees granted</i>	1,961,692	2,349,068
<i>Export letters of credit confirmed</i>	8,709	10,141
	13,433,054	13,526,448
Liabilities received		
a) financial (<i>Deposits to be received</i>)	-	26,000
b) guarantees (<i>Guarantees received</i>)	1,921,858	2,394,584
	1,921,858	2,420,584

*In thousands of PLN***30.06.2009****31.12.2008**

Current off-balance sheet transactions*	2,780,718	1,723,887
Forward off-balance sheet transactions**	214,209,616	304,130,335
	232,345,246	321,801,254

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

** Derivatives: FX, interest rate transactions and options

27. Information about shareholders

As at 30 June 2009 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 (‘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 first half of 2009 the structure of major shareholdings has underwent following changes:

- according to notification placed on 20 February 2009 by Pioneer Pekao Investment Management S.A. („PPIM”) the total shareholding of PPIM clients reached the level of 5.01% of the total number of votes at the General Meeting of the Bank,
- according to notification received on 17 April 2009 from PPIM the total shareholding of PPIM clients fell below 5% of the total number of votes at the General Meeting of the Bank and has reached the level of 4.55%.

28. Information on pending proceedings

As at 30 June 2009 there were no proceedings regarding receivables of the Group before a court, public administration authority or an arbitration authority, the value of which would be equal to at least 10% of the Group's equity.

The total value of all legal proceedings with the participation of the Bank and subsidiaries of the Bank regarding debts exceeded 10% of the Group's equity and equaled PLN 1,095 million.

The most significant legal proceedings concerning receivables are as follows:

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie S.A.	158,534	8 August 1996 – declaration of bankruptcy.	Case pending. The Bank submitted the receivable to obtain repayment from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expected to complete the bankruptcy proceeding by the end of 2006. The Bank still expects to receive a resolution on completion of the bankruptcy proceeding. The processing is still pending.
Creditor: Bank Handlowy w Warszawie S.A.	44,732	On 22 June 2001, the court declared the debtor – the client of the Bank bankrupt.	The Bank submitted its receivables to the proceedings. Case pending.
Creditor: Bank Handlowy w Warszawie S.A.	64,837	On 30 June 2009 the court declared the secondary bankruptcy of the client of the Bank including liquidation of assets and the official receiver was assigned.	The court called on creditors to submit receivables. Case pending.

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

As at 30 June 2009, there were no proceedings regarding liabilities of the Group, whose value would be equal to at least 10% of the Group's equity, pending before a court, public administration authority or an arbitration authority. The total value of claims concerning liabilities of the Bank or its subsidiary was not greater than 10% of the Group's equity.

In case of legal proceedings involving the risk of money outflow as a result of meeting Group's commitments the appropriate provisions are created.

29. Related parties

Transactions with related parties

Within its normal course of business activities the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., associates and members of the Bank's supervisory board, management and employees.

The transactions with related entities mainly include loans, deposits, guarantees and derivatives transactions.

Transactions with Citigroup Inc. entities

The balance sheet and off-balance sheet receivables and commitments towards Citigroup Inc. companies:

<i>In thousands of PLN</i>	30.06.2009	31.12.2008
Receivables, including:	1,616,957	1,432,414
<i>Placements</i>	<i>1,521,100</i>	<i>1,341,839</i>
Liabilities, including:	2,526,807	3,516,583
<i>Deposits</i>	<i>1,195,705</i>	<i>1,892,540</i>
<i>Loans received</i>	<i>882,226</i>	<i>1,037,369</i>
Balance valuation of derivative transactions		
Assets held-for-trading	3,080,889	3,849,056
Liabilities held-for-trading	3,861,555	4,817,442
Off-balance sheet guarantee liabilities granted	256,848	286,908
Off-balance sheet guarantee liabilities received	27,152	228,391
Interest and commission income in the first half of 2009/2008	29,581	50,060
Interest and commission expense in the first half of 2009/2008	11,674	25,110

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group for the provision of mutual services.

The costs arising and accrued in the first half of 2009 from concluded agreements amounted in total to PLN 75,823 thousand (in the first half of 2008: PLN 85,937 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income of PLN 27,692 thousand (in the first half of 2008: 25,734 thousand) arose from the provision of data processing and other services by the Group.

Transactions with subordinated entities

<i>In thousands of PLN</i>	30.06.2009	31.12.2008
<i>Loans, advances and other receivables*</i>		
Current accounts	298,499	220,096
<i>Loans, advances and other receivables</i>		
Opening balance	220,096	228,214
Closing balance	298,499	220,096
<i>Deposits</i>		
Current accounts (in respect of):	9,077	2,747
<i>consolidated subordinated undertakings</i>	<i>7,295</i>	<i>953</i>
<i>subordinated undertakings accounted for under the equity method</i>	<i>1,782</i>	<i>1,794</i>
Term deposits (in respect of):	245,025	228,741
<i>consolidated subordinated undertakings</i>	<i>245,025</i>	<i>179,122</i>
<i>subordinated undertakings accounted for under the equity method</i>	<i>-</i>	<i>49,619</i>
	254,102	231,488
<i>Deposits</i>		
Opening balance	231,488	266,961
Closing balance	254,102	231,488

*In thousands of PLN***30.06.2009****31.12.2008*****Contingent liabilities granted*****

Letters of credit	-	1,008
Guarantees granted	-	904
Credit lines granted	374,106	413,572

374,106	415,484
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Interest and commission income in the first half of 2009/2008 (in respect of):	4,040	10,212
<i>consolidated subordinated undertakings</i>	4,034	10,208
<i>subordinated undertakings accounted for under the equity method</i>	6	4

Interest and commission expenses in the first half of 2009/2008 (in respect of):	3,659	6,222
<i>consolidated subordinated undertakings</i>	2,649	5,963
<i>subordinated undertakings accounted for under the equity method</i>	1,010	259

* On 30 June 2009 and 31 December 2008 loans, advances and other receivables were related to taken advantage credits in current account of consolidation included units.

** On 30 June 2009 and 31 December 2008, contingent liabilities granted to dependent units concerned obligations granted to consolidation included units.

As at 30 June 2009 and 31 December 2008 any receivables or contingent liabilities of subsidiaries have not been subject to impairment write-offs.

Transactions with employees, members of the Management Board and Supervisory Board*In thousands of PLN*

	30.06.2009			31.12.2008		
	Employees	Members of the Management Board	Members of the Supervisory Board	Employees	Members of the Management Board	Members of the Supervisory Board
<i>Loans, advances and other receivables</i>						
Loans granted	76,082	43	-	41,434	104	8
Staff benefits	24,062	-	-	25,441	-	-
Prepayments	16	-	-	11	-	-
	100,160	43	-	66,886	104	8
<i>Deposits</i>						
Current accounts	88,170	1,712	972	65,625	2,457	1,186
Term deposits	49,903	1,581	2,262	26,474	200	2,741
	138,073	3,293	3,234	92,099	2,657	3,927
<i>Guarantees issued</i>	5	-	-	5	-	-

30. Other important information

On January 12, 2009 the Bank sold to Fairfax Financial Holdings Limited with its head office in Ontario, Canada, all of its 17,500,000 Series A and B registered shares of the company operating under the brand name of Polskie Towarzystwo Reasekuracji S.A. with its head office in Warsaw ("PTR S.A."), constituting about 16.64% of the share capital of PTR S.A. and entitling to the same number of votes at the General Meeting of Shareholders of PTR S.A. The sale of shares was made as a result of the Bank's response on November 28, 2008 to the public tender offer to acquire all of the outstanding shares of PTR S.A. made on September 8, 2008 by Fairfax Financial Holdings Limited and in connection with the fulfillment of all legal

conditions specified in the Tender Offer. The total price at which the Bank sold 17,500,000 PTR S.A. shares was PLN 28,000,000.

Following the Program Agreement signed on 28 July 2009 by and between, among others, Bank Gospodarstwa Krajowego and Bank Handlowy w Warszawie S.A., establishing the Bonds Issue Program by Bank Gospodarstwa Krajowego, under the provisions of the aforementioned Agreement, on 6 August 2009 Bank Gospodarstwa Krajowego made an offer to Bank Handlowy w Warszawie S.A. to purchase Series BGKBH0001 bonds totaling PLN 600,000,000.00 and bearing an issue date of 11 August 2009 in the primary market, issued under Art. 9.3) of the Bonds Act of 29 June 1995 (unified text: Journal of Laws of 2001, No. 120 item 1300), and on 7 August 2009 Bank Handlowy w Warszawie S.A. accepted the offer to purchase Series BGKBH0001 bonds in order to sell them to investors in the secondary market. At the same time Bank Handlowy w Warszawie S.A. concluded a number of agreements to sell Series BGKBH0001 bonds in the secondary market effective on the issue date, i.e. 11 August 2009. The Agreement to purchase Series BGKBH0001 bonds from Bank Gospodarstwa Krajowego and the agreements to sell Series BGKBH0001 bonds to investors will be settled on the issue date and at the issue price.

31. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, which members are: Mr. Sławomir S. Sikora – President of the Management Board, Mr. Michał H. Mrozek – Vice-President of the Management Board, Mr. Peter Rossiter – Vice-President of the Management Board, Mrs. Sonia Wędrychowicz-Horbatowska – Vice-President of the Management Board, Mr. Witold Zieliński – Vice-President of the Management Board, the financial data and the comparative data presented in the 'Condensed Interim Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended 30 June 2009' were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Group. The 'Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2009' contained in this document is a true representation of the development, achievements and situation (together with a description of the main types of risks) of the Group in the first half of 2009.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements KPMG Audyt Sp. z o.o., reviewing the "Condensed Interim Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 30 June 2009" was selected consistently with the legal regulations. This entity along with the registered auditor reviewing the financial statements met the conditions necessary for issuing an impartial and independent report on the review, consistently with the respective regulations of the Polish law and professional standards.

Signatures of all Management Board Members

20.08.2009	Sławomir S. Sikora	President of the Management Board	
.....
Date	Name	Position/function	Signature
20.08.2009	Michał H. Mrozek	Vice-President of the Management Board	
.....
Date	Name	Position/function	Signature
20.08.2009	Peter Rossiter	Vice-President of the Management Board	
.....
Date	Name	Position/function	Signature
20.08.2009	Sonia Wędrychowicz- -Horbatońska	Vice-President of the Management Board	
.....
Date	Name	Position/function	Signature
20.08.2009	Witold Zieliński	Vice- President of the Management Board	
.....
Date	Name	Position/function	Signature