citi handlowy

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A.

FOR THE FIRST QUARTER 2014

MAY 2014

TRANSLATION

SELECTED FINANCIAL DATA	PLN '000		EUR '000***	
	First quarter accruals period from 01.01.14 to 31.03.14	First quarter accruals period from 01.01.13 to 31.03.13	First quarter accruals period from 01.01.14 to 31.03.14	First quarter accruals period from 01.01.13 to 31.03.13
Data related to the interim condensed consolidated financial statements				
Interest income	379,458	441,865	90,576	105,866
Fee and commission income	186,008	193,434	44,400	46,345
Profit before tax	308,596	439,515	73,661	105,303
Net profit	247,650	355,427	59,113	85,157
Total income	219,747	170,379	52,453	40,821
Increase of net cash	923,876	(300,998)	220,527	(72,116)
Total assets*	47,992,920	45,398,389	11,505,507	10,946,757
Amounts due to banks*	6,893,397	6,378,436	1,652,578	1,538,010
Amounts due to customers*	26,570,206	26,568,765	6,369,766	6,406,434
Shareholders' equity	7,527,011	7,561,794	1,804,476	1,810,168
Share capital	522,638	522,638	125,294	125,111
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	57.61	57.87	13.81	13.85
Capital adequacy ratio (%)*	16.6	17.5	16.6	17.5
Earnings per ordinary share (PLN / EUR)	1.90	2.72	0.45	0.65
Diluted net earnings per share (PLN / EUR)	1.90	2.72	0.45	0.65
Data related to the interim condensed standalone financial statements				
Interest income	376,258	437,061	89,812	104,715
Fee and commission income	166,900	162,107	39,839	38,839
Profit before tax	300,828	420,083	71,807	100,648
Net profit	240,791	340,035	57,476	81,469
Total income	212,720	154,339	50,776	36,978
Increase of net cash	923,776	(290,477)	220,503	(69,595)
Total assets*	47,152,803	44,961,757	11,304,103	10,841,473
Amounts due to banks*	6,708,169	6,172,957	1,608,172	1,488,464
Amounts due to customers*	26,631,646	26,634,357	6,384,495	6,422,250
Shareholders' equity	7,433,942	7,498,067	1,782,164	1,794,912
Share capital	522,638	522,638	125,294	125,111
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	56.90	57.39	13.64	13.74
Capital adequacy ratio (%)*	16.8	17.0	16.8	17.0
Earnings per ordinary share (PLN / EUR)	1.84	2.60	0.44	0.62
Diluted net earnings per share (PLN / EUR)	1.84	2.60	0.44	0.62
Declared or paid dividend per share (PLN / EUR)**	7.15	5.79	1.71	1.39

** Comparable balance data according as at 31 December 2013.*

*** The presented ratios are related to declared dividend from the distribution of 2013 profit and dividend paid in 2013 from the distribution of 2012 profit.*

**** The following exchange rates were applied to convert PLN to EUR: for the statement of financial position - NBP average exchange rate as at 31 March 2014 - PLN 4.1713 (as at 31 December 2013: PLN 4.1472; as at 31 March 2013 – PLN 4.1774); for the income statement, a statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in the first quarter of 2014 - PLN 4.1894 (in the first quarter of 2013: PLN 4.1738).*

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TRANSLATION

Condensed consolidated income statement

PLN '000	First quarter accruals period from 01.01.14 to 31.03.14	First quarter accruals period from 01.01.13 to 31.03.13
Interest and similar income	379,458	441,865
Interest expense and similar charges	(86,375)	(114,773)
Net interest income	293,083	327,092
Fee and commission income	186,008	193,434
Fee and commission expense	(29,011)	(29,804)
Net fee and commission income	156,997	163,630
Net income on trade financial instruments and revaluation	125,381	120,761
Net gain on debt investment securities	39,632	171,964
Net gain on capital investment instruments	2,855	1,844
Hedge accounting income	(709)	-
Other operating income	15,719	20,021
Other operating expenses	(12,442)	(10,565)
Net other operating income	3,277	9,456
General administrative expenses	(296,110)	(331,297)
Depreciation of tangible and intangible assets	(18,334)	(13,406)
Profit/(loss) on sale of other assets	153	68
Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities	2,380	(10,470)
Operating income	308,605	439,642
Share in net profits/(losses) of entities valued at equity method	(9)	(127)
Profit before tax	308,596	439,515
Income tax expense	(60,946)	(84,088)
Net profit	247,650	355,427
Including:		
Net profit due to shareholders of the dominant entity	247,650	355,427
Weighted average number of ordinary shares (in pcs)	130,659,600	130,659,600
Net earnings per share (in PLN)	1.90	2.72
Diluted net earnings per share (in PLN)	1.90	2.72

Condensed consolidated statement of comprehensive income

PLN '000	First quarter accruals period from 01.01.14 to 31.03.14	First quarter accruals period from 01.01.13 to 31.03.13
Net income	247,650	355,427
Other comprehensive income which may be reclassified to income statement:		
Valuation of financial assets available-for-sale (net)	(28,084)	(185,694)
Exchange rate differences	181	646
Other comprehensive income after tax	(27,903)	(185,048)
Total comprehensive income	219,747	170,379
Including:		
Comprehensive income due to shareholders of the dominant entity	219,747	170,379

Condensed consolidated statement of financial position

State as at	31.03.2014	31.12.2013
PLN '000		
ASSETS		
Cash and balances with the Central Bank	1,989,294	778,464
Amounts due from banks	4,095,342	3,539,927
Financial assets held-for-trading	7,612,239	5,751,829
Debt securities available-for-sale	13,398,882	17,616,041
Capital investments valued at equity method	7,805	7,814
Capital investments available for sale	13,681	15,280
Amounts due from customers	17,988,546	15,231,327
Tangible fixed assets	379,686	384,581
Intangible assets	1,409,206	1,417,363
Receivables due to current income tax	73,369	80,854
Asset due to deferred income tax	217,144	203,132
Other assets	794,182	359,039
Fixed assets held-for-sale	13,544	12,738
Total assets	47,992,920	45,398,389
LIABILITIES		
Amounts due to banks	6,893,397	6,378,436
Financial liabilities held-for-trading	5,195,453	4,196,896
Hedging derivative instruments	-	24,710
Amounts due to customers	26,570,206	26,568,765
Provisions	75,567	89,284
Current income tax liabilities	392	84
Other liabilities	1,730,894	832,950
Total liabilities	40,465,909	38,091,125
EQUITY		
Share capital	522,638	522,638
Share premium	2,997,759	2,997,759
Revaluation reserve	(71,047)	(42,963)
Other reserves	2,859,569	2,859,388
Retained earnings	1,218,092	970,442
Total equity	7,527,011	7,307,264
Total liabilities and equity	47,992,920	45,398,389

Condensed consolidated statement of changes in equity

PLN '000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2014	522,638	2,997,759	(42,963)	2,859,388	970,442	-	7,307,264
Total comprehensive income, including:	-	-	(28,084)	181	247,650	-	219,747
Net profit	-	-	-	-	247,650		247,650
Exchange rate differences from foreign units' conversion	-	-	-	181	-	-	181
Valuation of financial assets available-for-sale (net)	-	-	(28,084)	-	-	-	(28,084)
Balance as at 31 March 2014	522,638	2,997,759	(71,047)	2,859,569	1,218,092	-	7,527,011

PLN '000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2013	522,638	3,011,380	257,791	2,637,066	962,540	-	7,391,415
Total comprehensive income, including:	-	-	(185,694)	646	355,427	-	170,379
Net profit	-	-	-	-	355,427	-	355,427
Exchange rate differences from foreign units' conversion	-	-	-	646	-	-	646
Valuation of financial assets available-for-sale (net)	-	-	(185,694)	-	-	-	(185,694)
Transfer to capital	-	-	-	206	(206)	-	-
Balance as at 31 March 2013	522,638	3,011,380	72,097	2,637,918	1,317,761	-	7,561,794

PLN '000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2013	522,638	3,011,380	257,791	2,637,066	962,540	-	7,391,415
Total comprehensive income, including:	-	-	(300,754)	414	972,708	-	672,368
Net profit	-	-	-	-	972,708	-	972,708
Exchange rate differences from foreign units' conversion	-	-	-	414	-	-	414
Valuation of financial assets available-for-sale (net)	-	-	(300,754)	-	-	-	(300,754)
Dividends to be paid	-	-	-	-	(756,519)	-	(756,519)
Transfer to capital	-	(13,621)	-	221,908	(208,287)	-	-
Balance as at 31 December 2013	522,638	2,997,759	(42,963)	2,859,388	970,442	-	7,307,264

Condensed consolidated statement of cash flows

PLN '000	First quarter accruals period from 01.01.14 to 31.03.14	First quarter accruals period from 01.01.13 to 31.03.13
Cash at the beginning of the reporting period	1,120,162	1,544,322
Cash flows from operating activities	857,257	(275,227)
Cash flows from investing activities	(7,658)	(9,585)
Cash flows from financing activities	74,277	(16,186)
Cash at the end of the reporting period	2,044,038	1,243,324
Increase/(decrease) in net cash	923,876	(300,998)

Supplementary notes to the interim condensed consolidated financial statements

1 General information about the Bank and the Capital Group

Bank Handlowy w Warszawie S.A. ("the dominant entity", "the Bank", "Citi Handlowy") has its registered office in Warsaw at 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 kept 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 shares are quoted on the Warsaw Stock Exchange.

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

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

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

This interim consolidated report presents financial data 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.

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		31.03.2014	31.12.2013
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A. („DMBH")	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Entities valued at equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

In the first quarter of 2014 there were no changes in the structure of Group's entities.

2 Declaration of conformity

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting 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 for the financial year ended 31 December 2013.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2014, item 133) the Bank is obliged to publish its financial results for the 3 month period ended 31 March 2014 which is deemed to be the current interim financial reporting period.

3 Principles accepted at the composition of the consolidated financial statements

The condensed interim consolidated financial statements of the Group for the first quarter 2014 have been prepared in accordance with accounting principles adopted and summarized in the annual consolidated financial statements of the Group for the financial year ended 31 December 2013.

The changes of accounting standards, that were approved by the European Union and entered into force from 1 January 2014, had no significant influence on these interim standalone financial statements.

The preparation of condensed interim consolidated financial statements of the Group with accordance to IFRS requires form the Management to make certain estimates and adopting the related assumptions that affect the amounts reported in the financial statements. This financial statement is based on the same estimation rules, which were used in the annual financial statements of the Group for the financial year ended 31 December 2013, including the reasons and sources of uncertainty as at the balance sheet date.

The most significant estimates made for the 3 month period ended 31 March 2014, concern:

- Value loss of financial assets,
- Valuation to the fair value of derivatives,
- Employee benefits.

The condensed interim consolidated financial statements of the Group have been prepared for the period from 1 January 2014 to 31 March 2014. Comparative financial data are presented for the period from 1 January 2013 to 31 March 2013, and for the statement of financial position as at 31 December 2013.

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

4 Macroeconomic trends and conditions prevailing on the monetary, FX and capital markets

1. Macroeconomic trends and conditions prevailing on the monetary and FX markets

Monthly macroeconomic data suggest continuation of the gradual acceleration of economic growth in Q1 2014 from 2.7% YoY in Q4 and 1.9% in Q3 2013. At the same time, data from the economy indicate that the recovery is mainly driven by improvement in domestic demand. It is reflected in retail sales data which is a good indicator of private consumption trends. Real growth of retail sales accelerated to 5.9% YoY in January and February from 4.6% YoY in Q4 and 4% YoY in Q3 2013.

Improving consumption data result from gradual rebound on the labour market. Increase of salaries in the enterprise sector accelerated in January and February 2014 to 3.7% YoY from 3.0% in Q4 2013. At the same time, employment growth dynamic remained stable at 0.1% YoY, same as in Q4 2013. However, it is essential to consider that the data of the Central Statistical Office for the first months this year are negatively affected by changes in the sample of businesses. Given the low inflation, the real increase in salaries accelerated to 3.1% from 2.3% in Q4 2013. Although the registered unemployment rate remained relatively high, reaching 13.9% in February 2014 as compared to 13.4% as at the end of December and 13% as at the end of September 2013, we see a downward trend after excluding seasonal factors. Consumption was also supported by further acceleration in retail lending growth in Q1 2014 to 5.2% YoY from 4.2% in Q4 and 3.5% YoY in Q3 2013.

Acceleration of economic growth is also indicated by continued PMI growth to 55.1 in Q1 2014 from 53.7 in Q4 2013. Improvement in PMI figures results primarily from the performance of the manufacturing and new orders index, including exports. This is confirmed by exports growth picking up in January and February 2014 to 7% YoY from 5.4% in Q4 2013. This development also triggered the growth of imports to 6.1% YoY from 1.7% YoY. Despite PMI growth and strong trade data, industrial production growth in the first two months of 2014 remained relatively stable at 4.8% YoY as compared to 4.7% YoY in Q4 and 4.9% YoY in Q2 2013. Moreover, the first months of 2014 saw a narrowing of the current account deficit in relation to GDP to around 1.1% in February 2014 as compared to around 1.5% in December 2013 and 1.9% as at the end of Q3 2013.

In January and February 2014 average inflation rate dropped to 0.6% YoY from 0.7% YoY in Q4 and 1.1% in Q3 2013. Consumer prices inflation turned out lower than expected primarily in view of the revision of weights in the CPI basket, relatively low fuel prices and lower prices in the communication and health sectors.

In the first months of the year the reference rate of the National Bank of Poland remained record low at 2.5%. However, in reaction to the inflation rate persisting well below the inflation target of the National Bank of Poland, the Monetary Policy Council decided to extend the interest rate stabilisation horizon at least to the end of Q3.

The Polish zloty slightly weakened against the euro and the dollar in Q1 2014. The EUR/PLN rate increased to 4.17 as at the end of March from 4.15 last year, although the rate reached 4.25 in Q1. The USD/PLN pair increased to 3.03 from 3.02, touching 3.15 during the month. Weakening of the Polish zloty in the initial months of the year was mainly driven by increasing aversion to risk associated with elevated geopolitical risk in the region resulting from the situation in Ukraine. Moreover, continued tapering by the Fed also negatively affected the Polish currency. The zloty weakened despite strengthening of euro against the dollar, which usually supported the zloty, and despite further narrowing of the current account deficit.

On the debt market in Q1 2014 the yields on the short and long ends of the yield curve dropped and we saw slight increases in its middle part. Yield growth was triggered by the sell-off of Polish bonds by foreign investors. This was most probably caused by further tapering by the Fed. The bonds sell-off might have also been caused by the expected transfer of assets from Open Pension Funds (OFEs) to the public sector, which reduced the weights of Poland in international bond indices. These factors were largely offset by the lower inflation than expected and a more dovish approach by the Monetary Policy Council members, who suggested the first interest rate hikes may come later than initially expected. The yield of 2-year bonds as at the end of Q1 2014 was 3.01% as compared to 3.03% as at the end of 2013. The yield of 10-year bonds as at the end of Q1 2014 dropped to 4.23% from 4.35% as at the end of 2013. As at the end of March 2014 the 3-month WIBOR remained unchanged as compared to the end of 2013.

2. Capital market situation

Concerns about the economic slowdown in China, escalation of a crisis between Ukraine and Russia and adjustment of the Open Pension Funds portfolios in preparation for the transfer 51.5% of assets to the Social Insurance Institution (ZUS) – these events could have negatively influenced the situation on the domestic equity market in the first three months of this year. Despite these risk factors, the Warsaw Stock Exchange (WSE) performed relatively well, which was supported by the continued rebound of the Polish economy, evidenced by the record high PMI figures.

All of the main indices slightly improved in Q1, with the exception of the sWIG80 index of small companies (down by 6.8% as compared to the end of 2013). The WIG broad market index increased over the quarter by 2.1%, while WIG20, the index of 20 largest stocks by market capitalisation, increased by 2.6% QoQ. The highest return was generated by medium enterprises, whose mWIG40 index improved by 4.1%.

As regards sector sub-indices, we saw solid growth of energy companies (+15.4%) and banks (WIG-Banks gained 9.2%). Food companies (down by 14.4% as compared to the end of 2013) and the WIG-Basic materials index (down by 7.2% QoQ) were under the greatest pressure.

The first three months of 2014 brought a slowdown on the IPO market as compared to Q4 2013. Stocks of 5 companies were listed on the WSE for the first time in Q1 2014 (including two transfers from NewConnect) and the total value of offers was only PLN 74.4 million. Three stocks were delisted which meant that stocks of 450 issuers were traded as at the end of March (including 46 foreign issuers). The total market value of all companies listed on the WSE exceeded PLN 892 billion (+6.1% QoQ) and the share of Polish companies in the total market capitalisation decreased to 69% from 71% in Q4 2013.

Stock market indices as on 31 March 2014

Index	31 March 2014	31 December 2013	Change (%) QoQ	31 March 2013	Change (%) YoY
WIG	52,373.47	51,284.25	2.1%	45,147.57	16.0%
WIG-PL	53,656.97	52,377.63	2.4%	45,528.85	17.9%
WIG-div	1,149.46	1,131.43	1.6%	986.42	16.5%
WIG30*	2,612.52	2,537.53	3.0%	-	-
WIG50**	3,225.89	-	-	-	-
WIG250**	1,329.27	-	-	-	-
WIG20	2,462.47	2,400.98	2.6%	2,370.07	3.9%
mWIG40	3,481.44	3,345.28	4.1%	2,624.74	32.6%
sWIG80***	13,366.60	14,336.82	(6.8%)	10,938.55	22.2%
Sector sub-indices					
WIG-Banks	8,749.83	8,014.15	9.2%	6,369.16	37.4%
WIG-Construction	2,297.23	2,257.09	1.8%	1,677.23	37.0%
WIG-Chemicals	11,009.55	11,645.90	-5.5%	10,595.39	3.9%
WIG-Developers	1,456.02	1,486.67	(2.1%)	1,335.61	9.0%
WIG-Energy	3,985.66	3,453.73	15.4%	3,441.46	15.8%
WIG-IT	1,312.10	1,363.92	(3.8%)	1,091.06	20.3%
WIG-Media	3,769.59	3,476.78	8.4%	2,642.66	42.6%
WIG-Oil&Gas	3,155.27	3,215.11	(1.9%)	3,693.72	(14.6%)
WIG-Food	2,781.50	3,249.28	(14.4%)	3,478.60	(20.0%)
WIG-Basic materials	3,821.04	4,118.45	(7.2%)	5,156.59	(25.9%)
WIG-Telecom	1,038.63	1,005.35	3.3%	691.67	50.2%

Source: WSE, DMBH;
** index calculated since 23 September 2013, ** index calculated since 24 March 2014, ***WSE stopped publication of index on 21 March 2014.*

Value of traded shares and bonds and derivative volumes on the WSE in Q1 2014

	Q1 2014	Q4 2013	Change (%) QoQ	Q1 2013	Change (%) YoY
Shares (PLN million)*	125,823	124,826	0.8%	142,187	(11.5%)
Bonds (PLN million)	555	602	(7.8%)	1,528	(63.7%)
Futures (in thousand contracts)	6,097	4,996	22.0%	5,955	2.4%
Options (in thousand contracts)	264	321	(17.6%)	372	(29.1%)

** excluding calls*
Source: WSE, DMBH

In terms of the activity of investors on the domestic stock market, Q1 2014 with volume at PLN 125.8 billion was slightly better than Q4 2013 (up by only 0.8%). However, as compared to the corresponding period in 2013, turnover dropped by nearly 12%.

In the reported period investors showed less interest in bond market which led to decrease in trading volumes (amounting to PLN 555 million as of 31 March 2014) both quarterly (-7.8%) as well as annually (-63.7%).

Futures were the only segment in which greater activity of investors was observed. In Q1 2014 the volume of these instruments grew by 22% QoQ and 2.4% YoY, reaching almost 6.1 million.

In January to March 2014 the trading volume of options totalled 264,000 and was significantly lower than in Q4 2013 (-17.6%) or Q1 2013 (-29.1%).

5 Situation in the banking sector

Data published by the National Bank of Poland indicate an increase in the volume of corporate loans by 3.3% YoY in Q1 2014. Their balance as of the end of March 2014 was over PLN 260 bn. This allows to conclude that we may be seeing a rebound of the slowdown in lending, which continued since Q4 2012. Considering the maturity structure of the corporate loan portfolio, increases were noted in all categories, particularly in the case of loans between 1 and 5 years (10.8% YoY). Long-term loans, i.e. over 5 years, grew by 2.2% YoY, whereas growth in the case of loans maturing within less than one year was 0.2% YoY. As regards the type structure, increases were noted in investment loans (8.7% YoY) and current loans (1.1% YoY). Decreases were noted in real estate loans (-2.4% YoY). The quality of the corporate loans portfolio as at the end of February 2014, measured with the non-performing loans ratio improved on an annual basis by 0.4 p.p. to 11.5%. This resulted mainly from quality improvement of loans granted to large enterprises (down by 0.5 p.p. to 9.4%) and a slight improvement in loans to small and medium enterprises (down by 0.1 p.p. to 13.0%). The improvement in the quality of corporate portfolio may suggest an improvement of the financial position of businesses related to economic recovery.

The balance of household loans as at the end of March 2014 increased to nearly PLN 554 bn (+4.7% YoY) primarily due to real estate loans (+4.3% YoY). Increase in the volume of real estate loans was noted in PLN loans, whose balance increased by 16.3% YoY, whereas the volume of loans denominated in foreign currencies dropped by 6.1% YoY. Taking into account the significant drop in new foreign currency real estate lending, one should expect the PLN loan uptrend to continue, coupled with the gradually shrinking foreign currency portfolio. The consumer loan portfolio continues to grow since Q4 2013 (3.8% YoY), reaching the highest dynamics in the last 8 quarters. Increases were also noted in loans granted to sole traders (12.9% YoY) as well as in investment loans (5.4% YoY). The quality of household loans portfolio has improved. The NPL ratio in this segment dropped by 0.4 p.p. YoY to 7.1%, whereas the NPL ratio for mortgage loans increased by 0.3 p.p. YoY to 3.2%, decreasing in the case of consumer loans by 2.7 p.p. YoY to reach 14.8% as at the end of February 2013.

Corporate deposits increased on an annual basis by 6.8% and their volume as at the end of Q1 2014 exceeded PLN 195 bn. The increase resulted from demand deposits, which grew by 25.3% YoY, whereas term deposits dropped by 9.1% YoY.

In the case of household deposits, their balance increased by 5.9% YoY to PLN 551 bn. While demand deposits growth dynamics was stable at a high level, reaching +11.3% YoY, term deposits grew slightly on an annual basis for the first time in eight months (0.8% YoY). This changed the structure of deposits in favor of demand deposits. Their share in household deposits was 50.9% as compared to 48.4% as at the end of March 2013.

Net performance of the banking sector after Q1 2014 decreased by -2.9% against the corresponding period of 2013 and amounted to nearly PLN 4.0 bn. The net result declined on the back of impairment charges increasing by 5.4% YoY as well as general administrative and depreciation expenses rising by 1.5% YoY, which was not offset by revenues increasing by +0.8% YoY. Positive dynamics was driven by an increase in net interest income of 13.0% YoY, whereas the net fee and commission income and other income dropped by -2.1% YoY and -35.0% YoY respectively.

6 Financial analysis of the results of the Capital Group of the Bank

1. Consolidated statement of financial position

At the end of the first quarter of 2014, total assets amounted to PLN 48.0 billion compared to PLN 45.4 billion reported at the end of 2013, i.e. were up by PLN 2.6 billion (or 5.7%). The change in total assets was due to the following factors:

- increase in net receivables from customers by PLN 2.8 billion or 18.1%, reflecting an increase in lending to the non-financial sector customers (up by PLN 0.9 billion, or 5.9%) and a significant increase in receivables from financial sector entities (up by PLN 1.9 billion, mainly due to the reverse repo transactions). The receivables from the non-financial sector grew both on the corporate customers side (up by PLN 0.8 billion, or 8.6%; growth in all customer segments) and the retail customers side (up by PLN 0.1 billion, or 1.3%, due to a higher balance of cash loans and mortgage loans);

- increase in financial assets held-for-trading by PLN 1.9 billion, or 32.3%, primarily due to the growth of the Treasury bonds portfolio;
- decrease in the balance of debt securities available-for-sale by PLN 4.2 billion, i.e. 23.9%, mainly due to the reduced position in NBP cash bills.

Net amounts due from customers

PLN '000	31.03.2014	31.12.2013	Change	
			PLN '000	%
Amounts due from financial sector entities	2,610,342	715,466	1,894,876	264.8%
Amounts due from non-financial sector entities, including:	15,378,204	14,515,861	862,343	5.9%
Corporate clients*	10,026,881	9,232,581	794,300	8.6%
Individual clients, including:	5,351,323	5,283,280	68,043	1.3%
unsecured receivables	4,254,853	4,215,081	39,772	0.9%
mortgage loans	1,096,470	1,068,199	28,271	2.6%
Total net receivables from customers	17,988,546	15,231,327	2,757,219	18.1%

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

Amounts due from customers divided into not at risk of / with recognized impairment

PLN '000	31.03.2014	31.12.2013	Change	
			PLN '000	%
Not at risk of impairment, including:	17,776,161	14,983,311	2,792,850	18,6%
non-financial sector entities	15,165,677	14,267,713	897,964	6,3%
corporate clients*	9,923,299	9,093,770	829,529	9,1%
individual clients	5,242,378	5,173,943	68,435	1,3%
With recognized impairment, including:	1,095,210	1,135,085	(39,875)	(3.5%)
non-financial sector entities	1,076,214	1,116,089	(39,875)	(3.6%)
corporate clients*	437,026	470,945	(33,919)	(7.2%)
individual clients	639,188	645,144	(5,956)	(0.9%)
Dues related to matured derivative transactions	95,315	96,964	(1,649)	(1.7%)
Total gross receivables, including:	18,966,686	16,215,360	2,751,326	17.0%
non-financial sector entities	16,241,891	15,383,802	858,089	5.6%
corporate clients*	10,360,325	9,564,715	795,610	8.3%
individual clients	5,881,566	5,819,087	62,479	1.1%
Impairment, including:	(978,140)	(984,033)	5,893	(0.6%)
Dues related to matured derivative transactions	(81,047)	(81,556)	509	(0.6%)
Total net receivables from customers	17,988,546	15,231,327	2,757,219	18.1%
Impairment coverage ratio with recognized impairment**	81.9%	79.5%		
corporate clients*	79.6%	73.8%		
individual clients	83.0%	83.1%		
Non-performing loans ratio (NPL)	5.8%	7.0%		

**Corporate clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*
***Ratio calculated with IBNR impairment*

On the liabilities side, liabilities towards banks grew by PLN 0.5 billion, or 8.1%, while liabilities towards customers remained stable. At the end of March 2014 customers deposits dropped by PLN 1.0 billion, or 3.7%, which was mainly driven by a seasonal decrease in current account balances of corporate customers compared to the high level at the end of 2013. At the same time, for another quarter in a row, deposits of individual customers increased (up by PLN 0.3 billion, or 4.8%) in both current account and term deposits. Other liabilities towards customers also grew (by PLN 1.0 billion, or 198.2%), which was mainly due to a higher level of liabilities under repo contracts.

Amounts due to customers

PLN '000	31.03.2014	31.12.2013	Change	
			PLN '000	%
Current accounts, including:	15,355,522	17,303,756	(1,948,234)	(11.3%)
financial sector entities	336,838	320,634	16,204	5.1%
non- financial sector entities, including:	15,018,684	16,983,122	(1,964,438)	(11.6%)
Corporate clients*, including:	8,933,966	11,051,215	(2,117,249)	(19.2%)
Budgetary units	1,715,584	3,347,446	(1,631,862)	(48.7%)
Individual clients	6,084,718	5,931,907	152,811	2.6%
Time deposits, including:	9,771,145	8,780,957	990,188	11.3%
financial sector entities	3,717,226	2,939,233	777,993	26.5%
non-financial sector entities, including:	6,053,919	5,841,724	212,195	3.6%
Corporate clients*, including:	4,900,226	4,866,448	33,778	0.7%
Budgetary units	1,152,584	216,815	935,769	431.6%
Individual customers	1,153,693	975,276	178,417	18.3%
Total customers deposits	25,126,667	26,084,713	(958,046)	(3.7%)
Other amounts due to customers	1,443,539	484,052	959,487	198.2%
Total amounts due to customers	26,570,206	26,568,765	1,441	0.0%

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

2. Consolidated income statement

In the first quarter of 2014, the Group delivered a consolidated net profit of PLN 247.7 million, down by PLN 107.8 million (or 30.3%) compared to Q1 2013. At the same time the revenues of the Group dropped by PLN 174.2 million (or 21.9%) to PLN 620.5 million. The main reason for the decline in revenues was a lower net gain on debt investment securities, PLN 39.6 million vs. PLN 172.0 million, which was the record high result realized in favorable conditions on the domestic debt market in Q1 2013.

Additionally, the main determinants of the Group's combined operating result in the first quarter of 2014 when compared to the first quarter of 2013 were the following:

- net interest income of PLN 293.1 million versus PLN 327.1 million in Q1 2013 – down by PLN 34.0 million, or 10.4%, stemming primarily from lower interest income from customer receivables (down by PLN 51.7 million, or 17.8%, out of which PLN 8.1 million was attributable to credit cards), partially offset by lower interest expenses (down by PLN 27.4 million YoY). Interest income from debt securities held-for-trading and debt securities available-for-sale was also down by PLN 10.3 million (41.9%) and PLN 2.5 million (2.3%), respectively;

Net interest income

PLN '000	01.01 - 31.03.2014	01.01 – 31.03.2013	Change	
			PLN	%
Interest and similar income from:				
Balances with Central Bank	6,445	7,399	(954)	(12.9%)
Amounts due from banks	12,926	9,894	3,032	30.6%
Amounts due from customers, including:	238,981	290,686	(51,705)	(17.8%)
financial sector entities	6,387	11,990	(5,603)	(46.7%)
non-financial sector, including:	232,594	278,696	(46,102)	(16.5%)
credit cards	69,703	77,786	(8,083)	(10.4%)
Debt securities available-for-sale	106,877	109,401	(2,524)	(2.3%)
Debt securities held-for-trading	14,229	24,485	(10,256)	(41.9%)
	379,458	441,865	(62,407)	(14.1%)
Interest expense and similar charges on:				
Amounts due to banks	(8,900)	(12,540)	3,640	(29.0%)
Amounts due to financial sector entities	(23,284)	(25,135)	1,851	(7.4%)
Amounts due to non-financial sector entities	(50,763)	(76,304)	25,541	(33.5%)
Loans and advances received	(786)	(794)	8	(1.0%)
Derivatives in hedge accounting	(2,642)	-	(2,642)	-
	(86,375)	(114,773)	28,398	(24.7%)
Net interest income	293,083	327,092	(34,009)	(10.4%)

- net fee and commission income of PLN 157.0 million versus PLN 163.6 million in Q1 2013 – down by PLN 6.6 million, or 4.1% was mainly due to lower brokerage revenue (down by PLN 12.3 million, or 39.1%), which in Q1 2013 was boosted by fees on major transactions on the equity capital market. On the other hand, fee and commission income from payment and credit cards grew (up by PLN 5.4 million, or 13.6%) due to increased volumes of transactions made with payment cards. Net fee income was also supported by higher revenue from custody services (up by PLN 1.6 million, or 6.7%);

Net fee and commission income

PLN '000	01.01 – 31.03.2014	01.01- 31.03.2013	Change	
			PLN '000	%
Fee and commission income				
Insurance and investment products	33,517	34,669	(1,152)	(3.3%)
Payment and credit cards	59,670	55,559	4,111	7.4%
Payment orders	26,815	26,175	640	2.4%
Custody services	25,895	24,270	1,625	6.7%
Cash loans	1,081	1,513	(432)	(28.6%)
Brokerage operations	19,120	31,393	(12,273)	(39.1%)
Account cash management services	6,747	7,080	(333)	(4.7%)
Granted guarantee liabilities	4,083	3,517	566	16.1%
Granted financial liabilities	1,493	1,407	86	6.1%
Other	7,587	7,851	(264)	(3.4%)
	186,008	193,434	(7,426)	(3.8%)
Fee and commission expense				
Payment and credit cards	(14,114)	(15,452)	1,338	(8.7%)
Brokerage operations	(6,044)	(6,314)	270	(4.3%)
Fees paid to the National Depository for Securities (KDPW)	(5,163)	(5,040)	(123)	2.4%

PLN '000	01.01 – 31.03.2014	01.01- 31.03.2013	Change	
			PLN '000	%
Brokerage fees	(1,163)	(958)	(205)	21.4%
Other	(2,527)	(2,040)	(487)	23.9%
	(29,011)	(29,804)	793	(2.7%)
Net fee and commission income				
Insurance and investment products	33,517	34,669	(1,152)	(3.3%)
Payment and credit cards	45,556	40,107	5,449	13.6%
Payment orders	26,815	26,175	640	2.4%
Custody services	25,895	24,270	1,625	6.7%
Cash loans	1,081	1,513	(432)	(28.6%)
Brokerage operations	13,076	25,079	(12,003)	(47.9%)
Account cash management services	6,747	7,080	(333)	(4.7%)
Granted guarantee liabilities	4,083	3,517	566	16.1%
Granted financial liabilities	1,493	1,407	86	6.1%
Fees paid to the National Depository for Securities (KDPW)	(5,163)	(5,040)	(123)	2.4%
Brokerage fees	(1,163)	(958)	(205)	21.4%
Other	5,060	5,811	(751)	(12.9%)
Net fee and commission income	156,997	163,630	(6,633)	(4.1%)

- net income from trade financial instruments and revaluation of PLN 125.4 million versus PLN 120.8 million in Q1 2013, up by PLN 4.6 million stemming primarily from higher result on interbank operations;
- operating expenses and depreciation expenses of PLN 314.4 million compared to PLN 344.7 million in the corresponding period of the previous year – down by PLN 30.3 million (or 8.8%) was mainly due to lower staff expenses, among others, as a result of the employment restructuring started in October 2013. General administrative expenses also declined, mainly due to reduced advertising and marketing expenses and lower costs of external services;

General administrative expenses and depreciation expense

PLN '000	01.01 - 31.03.2014	01.01- 31.03.2013	Change	
			PLN '000	%
Staff expenses	(150,811)	(181,132)	30,321	(16.7%)
Remuneration costs	(109,309)	(119,127)	9,818	(8.2%)
Bonuses and rewards	(19,816)	(39,296)	19,480	(49.6%)
Social insurance costs	(21,686)	(22,709)	1,023	(4.5%)
Administrative expenses	(145,299)	(150,165)	4,866	(3.2%)
Telecommunication fees and hardware purchase costs	(42,619)	(41,566)	(1,053)	2.5%
Costs of external services, including advisory, audit, consulting services	(17,175)	(19,677)	2,502	(12.7%)
Building maintenance and rent costs	(22,363)	(22,553)	190	(0.8%)
Marketing costs	(4,888)	(8,130)	3,242	(39.9%)
Cash management services, KIR service and other transactional costs	(11,811)	(11,039)	(772)	7.0%
Costs of external services concerning distribution of banking products	(11,854)	(11,376)	(478)	4.2%
Postal services, office supplies and printmaking costs	(3,587)	(5,409)	1,822	(33.7%)
Training and education costs	(1,029)	(1,391)	362	(26.0%)
Banking supervision costs	(2,362)	(2,254)	(108)	4.8%
Other costs	(27,611)	(26,770)	(841)	3.1%
Depreciation/amortization of tangible and intangible assets	(18,334)	(13,406)	(4,928)	36.8%
General administrative expenses and depreciation expense, total	(314,444)	(344,703)	30,259	(8.8%)

- net impairment losses on financial assets and provisions for granted financial and guarantee liabilities of PLN 2.4 million compared to PLN -10.5 million in Q1 2013 (improvement by PLN 12.9 million). The Corporate Banking Segment reported a decline in net impairment losses by PLN 11.8 million YoY, mainly due to the stabilization of the individually managed impaired portfolio quality in the MME and SME segment. In the Consumer Banking Segment the stabilization and improvement in the quality of the unsecured loan portfolio was continued, which, similarly to last year, led to a reversal of net impairment losses (PLN 4.7 million in Q1 2014 versus PLN 3.6 million in the corresponding period of 2013).

Result on impairment write-off of financial assets and provisions for granted financial and guarantee liabilities

PLN '000	01.01 – 31.03.2014	01.01 – 31.03.2013	Change	
			PLN '000	%
Impairment write-downs of financial assets				
Amounts due from banks	(588)	(845)	257	(30.4%)
Amounts due from customers	(55,969)	(66,929)	10,960	(16.4%)
Dues related to matured transactions on derivative instruments	(5)	(10)	5	(50.0%)
Other	(2,418)	(2,627)	209	(8.0%)
	(58,980)	(70,411)	11,431	(16.2%)
Reversals of impairment write-downs of financial assets				
Amounts due from banks	1,349	387	962	248.6%
Amounts due from customers	59,485	59,068	417	0.7%
Dues related to matured transactions on derivative instruments	514	930	(416)	(44.7%)
Recoveries from sold debts	269	-,	269	-
	61,617	60,385	1,232	2.0%
Net impairment write-downs of financial assets	2,637	(10,026)	12,663	-
Created provisions for granted financial and guarantee commitments	(7,253)	(7,860)	607	(7.7%)
Releases of provisions for granted financial and guarantee commitments	6,996	7,416	(420)	(5.7%)
Net (charges to)/releases of provisions for granted financial and guarantee commitments	(257)	(444)	187	(42.1%)
Result on impairment write-off of financial assets and provisions for granted financial and guarantee liabilities	2,380	(10,470)	12,850	-

3. Ratios

In the first quarter of 2014 key financial ratios were as follows:

Financial ratios	Q1 2014	Q1 2013
ROE *	13.7%	16.9%
ROA**	1.9%	2.6%
Cost/Income	51%	43%
Loans to non-financial sector/Deposits from non-financial sector	73%	77%
Loans to non-financial sector/Total assets	32%	34%
Net interest income/Revenue	47%	41%
Net fee and commission income/Revenue	25%	21%

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

Group employment*

In full time job equivalents (FTE)	01.01 – 31.03.2014	01.01 – 31.03.2013	Change	
			FTEs	%
Average employment in the first quarter	4,487	4,969	(482)	(9.7)
Employment at the end of quarter	4,404	5,024	(620)	(12.3)

**does not include employees on parential and unpaid leave*

In the first quarter 2014 the Group noted a significant drop in the employment in comparison to the corresponding period of the previous year. In the fourth quarter 2013 the Bank started the process of group layoffs due to employment restructuring, in connection with the transformation of the retail banking distribution model and further improving the Bank's operational efficiency

As at 31 March 2014, capital adequacy ratio of the Group amounted to 16.6% and was lower by 0.9 percentage point comparing to the end of 2013 due to decrease in the Group's own funds by 1.2% and increase of the total capital requirement by 4.1%. The latter was driven by growth of credit exposure and change of methodology to Basel III.

Capital adequacy ratio*

	PLN '000	31.03.2014	31.12.2013
I	Tier I capital, after deductions	4,851,642	4,908,707
II	Total capital requirements, including:	2,339,257	2,246,769
	credit risk capital requirements	1,643,709	1,535,628
	counterparty risk capital requirements	86,176	80,127
	Credit valuation adjustment capital requirements	56,478	-
	capital requirements for excess of exposures' concentration limit and large exposures' limit	93,279	95,500
	total market risk capital requirements	94,862	156,778
	operational risk capital requirements	350,484	363,336
	other capital requirements	14,269	15,400
	Tier I capital ratio (I/(II*12,5))	16.6%	17.5%

**Capital Adequacy Ratio was calculated according to the rules applicable in the given reporting period, respectively as at 31 March 2014, according to the rules stated in the Regulation no 575/2013 of the European Parliament and of the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) no 648/2012, as at 31 December 2013 according to the rules stated in Resolution No 76/2010 of the Commission for Banking Supervision dated 10 March 2010 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 2. item 11 as amended).*

7 Segmental reporting

Operating segment is a separable component of the Group engaged in business activity, generating income and incurring expenses (including those on 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 at the level of two operating segments – Corporate Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its results is based on Group's accounting policies, including intragroup transactions between segments.

The allocation of Group's assets, liabilities, income and expenses to operating segments was made on the basis of internal information prepared for management purposes. Transfer of funds between Group's segments is based on prices derived from market rates. 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.

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

Corporate Banking

Within the Corporate Banking segment, the Group offers products and renders services to business entities, self-government units and public sector. Apart from traditional banking services consisting in credit and deposit activities, the segment provides services in the area 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 investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing via public and non-public issue of financial instruments. The activities also comprise proprietary transactions on the capital, debt and derivative instruments market.

Consumer Banking

Within the Consumer Banking segment the Group provides products and financial services to individuals as well as micro enterprises and individual entrepreneurs through the Citibusiness offer. Apart from keeping bank accounts and providing an extensive credit and deposit offer, it also offers cash loans, mortgage loans and credit cards, provides asset management services and acts as agent in investment and insurance products sale.

Consolidated income statement of the Group by business segment

For the period	01.01. – 31.03.2014			01.01. – 31.03.2013		
PLN '000	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
Net interest income	131,719	161,364	293,083	151,648	175,444	327,092
Internal interest income, including:	(13,129)	13,129	-	(6,569)	6,569	-
Internal income	-	13,129	13,129	-	6,569	6,569
Internal expenses	(13,129)	-	(13,129)	(6,569)	-	(6,569)
Net fee and commission income	68,879	88,118	156,997	82,629	81,001	163,630
Net income on trade financial instruments and revaluation	117,803	7,578	125,381	112,888	7,873	120,761
Net gain on debt investment securities	39,632	-	39,632	171,964	-	171,964
Net gain on investments in capital instruments	2,855	-	2,855	1,844	-	1,844
Hedge accounting income	(709)	-	(709)	-	-	-
Net other operating income	10,829	(7,552)	3,277	14,835	(5,379)	9,456
General administrative expenses	(128,898)	(167,212)	(296,110)	(155,966)	(175,331)	(331,297)
Depreciation of fixed assets and intangible assets	(6,283)	(12,051)	(18,334)	(6,740)	(6,666)	(13,406)
Profit/(loss) on sale of other assets	153	-	153	-	68	68
Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities	(2,304)	4,684	2,380	(14,105)	3,635	(10,470)
Operating income	233,676	74,929	308,605	358,997	80,645	439,642
Share in net profits (losses) of entities valued at equity method	(9)		(9)	(127)	-	(127)
Profit before tax	233,667	74,929	308,596	358,870	80,645	439,515
Income tax expense			(60,946)			(84,088)
Net profit			247,650			355,427

State as at	31.03.2014			31.12.2013		
PLN '000	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
Assets, including:	42,337,327	5,655,593	47,992,920	39,816,056	5,582,333	45,398,389
Assets valued at equity method	7,805	-	7,805	7,814	-	7,814
Fixed assets held-for-sale	-	13,544	13,544	-	12,738	12,738
Liabilities and equity, including:	38,403,298	9,589,622	47,992,920	36,070,064	9,328,325	45,398,389
Obligations	32,530,362	7,935,547	40,465,909	30,416,864	7,674,261	38,091,125

8 Activities of the Group

1. Corporate Banking

1.1. Summary of segment results

PLN '000	Q1 2014	Q1 2013	Change	
			PLN '000	%
Net interest income	131,719	151,648	(19,929)	(13.1%)
Net fee and commission income	68,879	82,629	(13,750)	(16.6%)
Net income on trade financial instruments and revaluation	117,803	112,888	4,915	4.4%
Net gain on debt investment securities	39,632	171,964	(132,332)	(77.0%)
Net gain on equity investment securities	2,855	1,844	1,011	54.8%
Net gain on hedge accounting	(709)	-	(709)	-
Net other operating income	10,829	14,835	(4,006)	(27.0%)
Total income	371,008	535,808	(164,800)	(30.8%)
General administrative expenses and depreciation	(135,181)	(162,706)	27,525	(16.9%)
Profit/(loss) on sale of other assets	153	-	153	-
Net impairment losses due to financial assets and provisions value losses for granted financial and guarantees liabilities	(2,304)	(14,105)	11,801	(83.7%)
Share in net profits (losses) of entities valued at equity method	(9)	(127)	118	(92.9%)
Profit before tax	233,667	358,870	(125,203)	(34.9%)
Cost / Income	36%	30%		

The key highlights that impacted the gross profit of the Corporate Banking for Q1 2014 compared to the corresponding period of the previous year were as follows:

- decrease in net interest income reflecting lower net interest income from debt securities (down by PLN 12.8 million, or 9.5%) and a decline in net interest income from customer business (as a result of the decrease in basic interest rates);
- decrease in net fee and commission income, mainly in the area of brokerage activity (down by PLN 12.0 million, or 47.9%), revenue from which in Q1 2013 was positively influenced by fees on major transactions on the equity capital market. On the other hand, fee and commission income from custody services increased (by PLN 1.6 million, or 6.7%);
- increase in net income from trade financial instruments and revaluation stemming primarily from higher result on interbank operations;
- decline in net gain on debt investment securities from the record-high gains realized in favorable conditions on the domestic debt market in Q1 2013;
- decline in operating expenses resulting primarily from lower staff expenses due to the employment restructuring started in October 2013 and, to a smaller extent, due to lower technology costs;
- decline in net impairment losses (PLN -2.3 million in Q1 2014 versus PLN -14.1 million in the corresponding period of the previous year) was a result of, among others, the stabilization of the individually managed impaired portfolio quality in the MME and SME segment.

1.2. Corporate and Investment Bank and the Capital Markets

Corporate and Commercial Bank

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

At the end of the first quarter of 2014, the number of corporate clients (including Strategic, Global and Local Commercial Banking clients) amounted to 7.5 thousand, down by 3% compared to the first quarter of 2013, when the number of clients amounted to 7.7 thousand. Under the Local Commercial Banking (small and medium companies, large enterprises and public sector) the Bank served 5.3 thousand clients at the end of the first quarter of 2014 (down by 5% compared to 5.6 thousand clients served at the end of the first quarter of 2013).

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

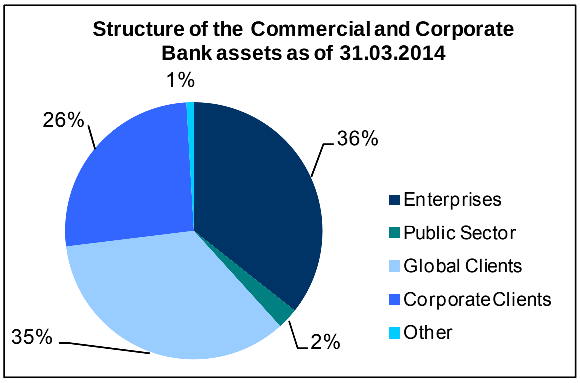
PLN million	31.03.2014	31.12.2013	31.03.2013	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	‘000	%	‘000	%
Enterprises*, including:	3,950	3,403	3,274	547	16%	676	21%
SMEs	1,700	1,611	1,510	89	6%	190	13%
MMEs	2,250	1,792	1,764	458	26%	486	28%
Public Sector	292	282	151	10	4%	141	93%
Global Clients	3,852	3,655	4,128	197	5%	(276)	(7%)
Corporate Clients	2,881	2,730	2,366	151	6%	515	22%
Other**	104	105	331	(1)	(1%)	(227)	(69%)
Total Corporate and Commercial Bank	11,079	10,175	10,250	904	9%	829	8%

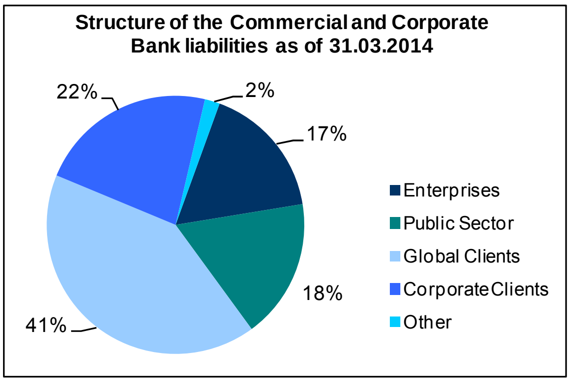
Liabilities

PLN million	31.03.2014	31.12.2013	31.03.2013	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	‘000	%	‘000	%
Enterprises*, including:	3,009	3,331	2,627	(322)	(10%)	382	15%
SMEs	2,166	2,384	1,967	(218)	(9%)	199	10%
MMEs	843	947	660	(104)	(11%)	183	28%
Public Sector	3,121	3,848	2,534	(727)	(19%)	587	23%
Global Clients	7,364	7,845	6,565	(481)	(6%)	799	12%
Corporate Clients	3,998	3,404	3,226	594	17%	772	24%
Other**	335	66	48	269	408%	287	598%
Total Corporate and Commercial Bank	17,827	18,494	15,000	(667)	(4%)	2,827	19%

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SME) and from PLN 150 million to PLN 1.5 billion (MME).*

*** ‘Other’ include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o., who are not clients of the Bank.*





Key transactions and achievements of the Corporate and Commercial Bank in Q1 2014:

- Transactions concluded by the Bank in Q1 2014 with Strategic Clients and Global Clients include:
  - raising capital with bonds for a State Treasury company and acquiring a considerable portion of the bonds (PLN 450 million),
  - long-term loan for 2 years for PLN 300 million for a company from the retail trade sector,
  - The Bank acquired one of the leaders of the Polish LPG gas market. The cooperation will cover processing domestic and cross-border transactions and currency exchange, including term transactions and financing.
- In Q1 2014 the Bank completed a number of transactions of financing with clients from the Enterprise Banking segment, examples of which are provided below:
  - The Bank concluded the following agreements for financing: a PLN 98 million investment loan with a manufacturer of electrical switchgear and controllers manufacturer, a PLN 18 million investment loan with a manufacturer of plastic packaging, reversed factoring for PLN 17 million with a manufacturer of fish preserves, a PLN 12 million overdraft with a manufacturer of plastic packaging, a PLN 10 million overdraft with a client from the non-specialised wholesale segment, PLN 10 million subsided investment loan with a municipal transport company;
  - The Bank granted the following loan products: a PLN 53 million short-term loan for a manufacturer of plastic goods, a PLN 20 million letter of credit for a manufacturer of car parts, a PLN 13 million overdraft for a manufacturer of power generators, a PLN 10 million revolving loan for a client designing and installing industrial machines, a PLN 10 million investment loan for a metals and ore wholesaler.

Activity and business accomplishments of the Treasury

- In February 2014 Citi Handlowy was once again awarded the official distinction for successes on the Treasury BondSpot Poland spot market on account of its activity during fixing sessions and the highest trading volumes in 2013;
- In terms of Treasury bonds transactions conducted with financial institutions, the trading volume in Q1 2014 was up by 8% against the corresponding period of the last year and by 34% as compared to Q4 2013;
- In Q1 2014 the Bank maintained its strong position on the foreign exchange market in the corporate segment. The volume of foreign exchange transactions increased by 16% against Q1 2013. Due to the seasonality involved in this type of market activity of the clients, a drop in trading volumes by 8% was noted as compared to the previous quarter;
- The CitiFX Pulse electronic transaction platform continued to be popular with the clients. In Q1 2014 over 70% of foreign exchange transactions were concluded on the platform, while the volume of electronic transactions increased by 35% against Q1 2013;

- In accordance with the *Rating&Rynek* report published by the Fitch Ratings agency, the Bank has remained the leader in the issuance of bonds and certificates of deposit for banks, with a 20% share in that market;
- In Q1 2014 the Bank ranked first in the 2014 Treasury Securities Dealer contest organised by the Ministry of Finance.

Transaction Banking

The Bank is the leading transactional banking service provider in Poland. The transactional banking offer covers the following products and services:

- Cash management products: deposits and current accounts, liquidity management products, MicroDeposits, electronic banking;
- Card products;
- Payments and receivables; Direct Debit, SpeedCollect;
- Cash products;
- EU advisory;
- Trade finance products.

Events and business achievements in Transaction Banking in Q1 2014:

- **Electronic banking**

In Q1 2014 subsequent changes and convenient solutions were introduced in the electronic banking offer for the Bank’s corporate clients:

  − the CitiDirect system was made accessible on tablets, a solution dedicated to managers in businesses. The application is currently available on iPads. The solution is planned to be made available on Android devices in the following quarter;
  − a new SEPA cross-border payments form was added in CitiDirect.

Other e-banking data:

  − A total of over 6.5 million transactions were processed electronically in CitiDirect and CitiDirect EB (CitiDirect Ewolucja Bankowości) in Q1 2014;
  − The number of active user among corporate clients remains high and was 4,800 as at the end of Q1 2014;
  − As at the end of Q1 2014, the number of corporate client accounts activated in the CitiDirect online banking system was 11,400 and 2,900 in CitiDirect EB;
  − The Bank promotes mobile e-banking solutions. The number of customers with mobile access to both e-banking systems is over 2,000. On average, over 6,000 transactions are effected via mobile channels every month.

- **Deposits and current accounts**

In Q1 2014, as a result of the activation of the present and new customers, the balances on corporate client accounts have increased considerably. In Q1 2014 the average monthly balance on deposit bank accounts with the Bank increased by 23% YoY.

- **MicroDeposits**

MicroDeposits are used by businesses who accept deposits from payees and return them together with interest. The Bank’s customers using such products are mainly courts and prosecutor’s offices.

The number of institutions using the Bank's solution increased in Q1 2014 by over 13% as compared to the corresponding period in 2013. It is important to note that the institutions the Bank provides services to are those with the highest deposits on the market.

At the same time in Q1 2014 the Bank started cooperating closely with customers to migrate deposits from courts to the new SAP financial and accounting system, whose integral part is the ZSD3 module developed specifically to meet the needs and in accordance with the requirements of the Ministry of Justice. This module uses the latest technologies used by the Bank, including on-line communication via WebServices. Thanks to these functionalities and broadening of the Bank's offer for the clients from the public segment, the Bank has recently acquired a number of key clients and became a leader on the MicroDeposits market.

- **Business cards**

The Bank has continued to reinforce its position in the Business card segment by constantly improving customer service quality and customising its offer to meet customers' needs. Thanks to the implementation of the strategy, the Bank was successful in improving transaction ratios. In Q1 2014, as compared to the corresponding period of 2013, the value of cashless transactions increased by 7% and their number went up by 6%.

- **Cross-border payments**

The Bank has a comprehensive and very broad offer of payment products in over 130 currencies around the world. Integrated payment services cover compilation of remote access channels and a variety of cross-border products. These include SEPA payments, now with a convenient form in CitiDirect, added in Q1 2014. The Bank also offers express EUR payments in TARGET2, which are currently the fastest method of executing cross-border payments.

- **Direct debit**

The Bank offer comprehensive receivables services. The direct debit is one of the segments on the market for these services. The growing number of processed transactions enabled the Bank to reinforce its leading position in this area. In Q1 2014 the share of the Bank in the direct debit market was estimated at 41.1%, up from 39.9% in Q1 2013.

- **SpeedCollect**

SpeedCollect is a service which allows to automatically book receivables for creditors who receive mass payments. The number of processed transaction volumes for Polish clients remained at the level of Q1 2013 which placed the Bank among leaders of the market in Q1 2014.

- **EU advisory**

In Q1 2014 the EU Office prepared the Bank's strategy for the new financial framework 2014–2020, in which the banks will become significant partners in the process of distributing EU funds and financing subsided investments.

In Q1 2014 the EU Office was also engaged in the performance of the Kreditanstalt für Wiederaufbau agreement signed by the Bank for the distribution of funds under the energy efficiency programmes for public sector units and SMEs. In Q1 2014 the Bank signed agreements for energy loans for a total of PLN 17.7 million.

- **Trade finance products**

In Q1 2014 the Bank has consistently continued pursuing its strategy of dynamic development in trade financing. New transactions were launched in this period, particularly in the area of financing suppliers and discounting receivables.

In Q1 2014 the Bank completed over 31,000 receivable financing transactions for a total value of PLN 1.3 billion, up by nearly 7% YoY.

Key transactions in the area of structured trade finance services in Q1 2014:

- discounting short-term receivables for a customer in the fuel sector for a total of PLN 1.0 billion, up by 26% as compared to the corresponding period of the previous year,
- development of the Supplier Finance Programmes by implementing new suppliers for a total of PLN 35 million,
- agreements for two major deals involving receivables discounting with no recourse for a total of PLN 139 million (the first transaction concerns the financing of a construction contract with Public Sector exposure and the other concerns the financing of receivables in the FMCG sector) were signed.

Custody Services

The Bank is a leader among custodian banks in Poland. It provides fiduciary services to foreign institutional investors as well as custody services to Polish financial entities, in particular, pension and investment funds as well as unit-linked insurance funds.

The Bank serviced 14,000 securities accounts as of 31 March 2014.

In this period the Bank acted as a custodian bank for five open pension funds: Amplico OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE and Nordea OFE, five voluntary pension funds: MetLife Amplico DFE, Nordea DFE, ING DFE, DFE Pekao and Generali DFE as well as two company pension funds – "Słoneczna Jesień" PZU Employee Pension Fund and Telekomunikacja Polska S.A. Employee Pension Fund.

The Bank also acted as a custodian bank for mutual funds managed by the following investment firms: BZ WBK TFI S.A., PKO TFI S.A., Pioneer Pekao TFI S.A., Legg Mason TFI S.A. and Aviva Investors Poland TFI S.A.

Brokerage services

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

In Q1 2014 DMBH acted as a broker in 13.2% of shares trading on the secondary market (session transactions), remaining the market leader. The value of session transactions concluded via the DMBH on the WSE was PLN 17 billion and increased by 15% as compared to the corresponding period of the previous year with the traded volume on the WSE increasing by 8%.

In Q1 2014 a significant increase in the activity of retail customers using the new transaction platform CitiFX Pro was noted. The platform enables purchasing and selling stocks and ETF instruments listed on major foreign stock exchanges as well as OTC forex instruments involving a financial leverage. The functions that are especially popular among customers include transferring portfolios of foreign stocks and actively managing them. The platform was also developed by addition of accounts in foreign currencies, which enable customers to invest their foreign currency assets without conversion, limiting exchange rate risk involved in cross-border investments.

As at the end of Q1 2014 the DMBH acted as a market maker for 15 stock listed on the stock exchange in Warsaw. This corresponds to 4% of stocks listed on the main market in Warsaw. The decrease in the number of issuers for which DMBH acted as a market maker (from 29 as at the end of 2013) resulted from the necessity to maintain parity as required by the WSE. Despite being a market maker for fewer companies, activity in the case of companies in the DMBH portfolio significantly increased. In accordance with the current list announced by the WSE, DMBH was one of the most active market makers among all organization providing such services on the WSE in Q1 2014.

Additionally, DMBH acted as a market maker for stock futures of the most liquid PZU, PKO BP, Pekao, PKN Orlen and PGE.

The number of securities accounts kept by DMBH as at the end of Q1 2014 totalled 9,200, up by 3.1% as compared to the end of Q1 2013 and up by 1.9% as compared to the end of Q4 2013. The increase in the number of accounts was mainly driven the systematic increase in the number of agreements for foreign markets services and forex services provided via CitiFX Pro. Accounts were also opened for customers taking part in initial public offerings.

A major standstill on the IPO market greatly affected DMBH's activity in this area. The value of IPO transactions dropped by 69% as compared to Q1 2013 and the slump was even greater in terms of SPO transactions.

In Q1 2014 DMBH completed the following transactions on the equity market:

- Legg Mason Akcji Skoncentrowany FIZ – DMBH acted as Issue Agent in the public offering of E-series investment certificates of a total value of PLN 7.7 million (March 2014);
- Alior Bank S.A. – DMBH as Exclusive Book Runner in the accelerated sale of the shares owned by LuxCo 82 s.a.r.l of a total value of PLN 101 million (March 2014).

Summary Income Statement and Balance Sheet*

Company's Name	Headquarter	Participation interest of the Bank in equity %	Balance sheet as at 31.03.2014 PLN '000	Equity as at 31.03.2014 PLN '000	Net financial result for 01.01-31.03.2014 PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	849,324	126,185	5,864

DMBH's results depend mainly of the activity of institutional investors (domestic as well as foreign), which in turn is affected by the inflow of new capital and the state of the stock market. Low interest rates environment is favourable for equity funds, thus the transfer of some of the savings from low-risk instruments to products with exposure to the equity market might be expected. In the horizon of a few subsequent quarters, DMBH is exposed to risk of lower transfers of new funds to Open Pension Funds (OFE) as a result of introducing voluntariness in the second pillar and the gradual transfer of funds to the Social Insurance Institution (ZUS) in the case of those OFE members who will reach retirement age within 10 years or less (the so-called safety zip).

Leasing services

In accordance with the decision of the Bank's Management Board to reduce the scope of leasing activities of the Bank's Group, taken in March 2013, the scope of activities of Handlowy Leasing Sp. z o.o. ("Handlowy Leasing", "HL") has been limited only to handling lease agreements entered into by 30 April 2013. No new lease agreements were concluded after that date by HL. The goal of HL is to continue performance of existing agreements, maintaining the service quality and ensuring process continuity and the economic efficiency in its business.

The leasing product continues to be offered by the Bank; however, it is made available as part of the "open architecture", i.e. the Bank's cooperation with organizations from outside its Group, treated as partners. Currently, lease services are provided under a cooperation agreement by two partners: Europejski Fundusz Leasingowy S.A. and CorpoFlota Sp z o.o.

Summary Income Statement and Balance Sheet*

Company's Name	Headquarters	Participation interest of the Bank in equity %	Balance sheet as at 31.03.2014 PLN '000	Equity as at 31.03.2014 PLN '000	Net financial result for 01.01-31.03.2014 PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	343,109	151,838	1,534

2. Consumer Banking

2.1. Summary of the segmental results

PLN '000	Q1 2014	Q1 2013	Change	
			PLN '000	%
Net interest income	161,364	175,444	(14,080)	(8.0%)
Net fee and commission income	88,118	81,001	7,117	8.8%
Net income on trade financial instruments and revaluation	7,578	7,873	(295)	(3.7%)
Net other operating income	(7,552)	(5,379)	(2,173)	40.4%
Total income	249,508	258,939	(9,431)	(3.6%)
General administrative expenses and depreciation	(179,263)	(181,997)	2,734	(1.5%)
Profit/(loss) on sale of other assets	-	68	(68)	(100.0%)
Net impairment losses due to financial assets and provisions value losses for granted financial and guarantees liabilities	4,684	3,635	1,049	28.9%
Profit before tax	74,929	80,645	(5,716)	(7.1%)
Cost/Income	72%	70%		

The key highlights that impacted the gross profit of the Consumer Bank in Q1 2014 when compared to the corresponding period of 2013 were as follows:

- decline in interest income mainly due to the reduction of credit card interest rates (the credit card interest rate in Q1 2014 was lower by 5 percentage points as compared to the corresponding period of the previous year) as a result of the changes in the market interest rates, which was partially offset by a decrease in interest expenses. The latter was achieved despite a significant increase in deposit balances and was a result of the interest rates reduction in order to match them with the market interest rates (the reduction applied mainly to savings accounts and term deposits);
- increase in net fee and commission income due to higher sales of investment products (a significant growth in sales of hybrid investment and insurance products) and installment products linked to credit cards (record sales in Q1 2014) and an increase in volumes of transactions made with payment cards;
- decline in operating expenses due to the restructuring savings, partly reinvested in technology. As compared to Q1 2013 advertising and marketing expenses also declined as a result of the strategic reduction of marketing expenses in the mass segment and an increase in spending in Gold and Gold Select segment as well as investments in Smart branches;
- a reversal of net impairment losses of PLN 4.7 million as a result of the continued stabilization and improvement in the quality of the unsecured loan portfolio (NPL ratio declined to 10.9% from 12.8% at the end of Q1 2013).

2.2. Selected business data

'000	Q1 2014	Q4 2013	Q1 2013	Change QoQ	Change YoY
Number of individual customers	776,5	782,3	851,5	(5.9)	(75.1)
Number of current accounts, including:	510,5	515,0	586,0	(4.5)	(75.5)
number of operating accounts	161,5	164,1	177,9	(2.6)	(16.4)
Number of operating accounts newly acquired during the reported period	15,8	18,1	16,4	(2.3)	(0.6)
Number of saving accounts	179,0	180,4	195,7	(1.5)	(16.8)
Number of credit cards, including:	767,6	773,3	792,7	(5.7)	(25.1)
co-branded cards	459,5	465,0	467,4	(5.5)	(7.9)
Number of active credit cards	685,3	691,2	716,2	(5.9)	(30.9)
Number of debit cards, including:	345,7	344,8	428,5	0.9	(82.8)
PayPass cards	320,4	316,8	382,0	3.5	(61.6)

Net receivables from individual clients – management view

'000	31.03.2014	31.12.2013	31.03.2013	Change QoQ		Change YoY	
				'000	%	'000	%
Unsecured receivables, including:	4,254,853	4,215,081	4,201,909	39,772	0.9%	52,944	1.3%
Credit cards	1,953,564	1,986,860	1,889,179	(33,296)	(1.7%)	64,385	3.4%
Cash loans	2,234,266	2,154,691	2,240,357	79,575	3.7%	(6,091)	(0.3%)
Other unsecured receivables	67,023	73,530	72,373	(6,507)	(8.8%)	(5,350)	(7.4%)
Mortgage loans	1,096,470	1,068,199	978,075	28,271	2.6%	118,395	12.1%
Net client receivables	5,351,323	5,283,280	5,179,984	68,043	1.3%	171,339	3.3%

2.3. Key Business Highlights

Bank accounts

- **Current accounts**

The number of individual current accounts was 510 thousand at the end of Q1 2014 (versus nearly 586 thousand in a prior year period), including 332 thousand PLN current accounts and 178 thousand foreign currency accounts. The decrease in the number of accounts was driven by the decision to close down inactive deposit relationships in Q4 2013. As a result, 74 thousand accounts of 50 thousand clients were closed in December of 2013.

The total current account balance stood at PLN 2.7 billion, an increase versus the year ago period by nearly 11%.

- **Savings accounts**

There were 179 thousand savings accounts with a total balance of PLN 3.3 billion in Q1 2014 compared to 195 thousand savings accounts with a total balance of PLN 3 billion in Q1 2013.

- **Changes in the offer**

The Bank continued to concentrate its acquisition efforts on CitiGold (assets of PLN 200,00 at minimum) and CitiForward (assets of PLN 15,000 or credits of PLN 5,000) client segments by the following activities: online campaigns, acquisition campaigns, promotional offers for deposits and savings maintained into a savings account and CitiGold Recommendation Program. Consequently, in Q1 2014, the number of CitiGold and CitiForward clients grew by 22% and 8%, respectively, versus the year ago period. Introduction of some changes to the pricing model in January 2014 reaffirmed the Bank's commitment to CitiGold segment. In order to meet the fee-free account eligibility criteria, additionally to having their bank account credited with a minimum amount of PLN 12,000 per month, clients must maintain a minimum balance of PLN 50,000.

The Bank enhanced also its global banking offer by providing its clients with the possibility to pay for products and services from their GBP and USD bank accounts without any currency translation costs. Clients maintaining their EUR accounts have been able to make similar payments since 2008.

Credit cards

There were 767.6 thousand credit cards at the end of Q1 2014.

As at the end of Q1 2014, the total credit card balance was PLN 2 billion, representing an increase by 3.4% YoY and a decrease by 1.7% versus the end of 2013. As a result, the Bank maintained its leadership position in terms of the credit facility value granted in the form of credit cards, with a market share of 18.2%. According to the data as at the end of Q4 2013, the Bank continued its credit card momentum in terms of transaction value with a market share at 22.2%.

In the reported period, the Bank acquired 25% more credit cards than in the year ago period. The dominant share in the structure of credit cards sold in Q1 2014 was that of the traditional cards, mainly

Citibank Gold Credit Card with acquisition share of 42%. The co-branded cards with the highest sales share included Citibank World Credit Card with an acquisition share of 23%.

Cash Loan and Cash Loan to Credit Card Account (ALOP)

The cash loan portfolio stood at PLN 2.2 billion at the end of Q1 2014, which represented an increase by 3.7% versus Q4 2013 and a decrease by 0.3% versus the year ago period.

A gradual increase in the cash loan volume was reported over Q1 2014. The total cash loan sales amounted to PLN 458.5 million in Q1 2014. All sales channels (tele-sales, branch network, Internet) reported sales growth over the quarter and their performance was growing every month. Among the main acquisition activities that took place in Q1 2014 was the promotional consolidation offer (i.e. special offer for consolidation loans) introduced in mid-January and a relaunch of “Pożyczka warta polecenia” loan which resulted in growing number of Cash Loan clients.

Additionally, over Q1 2014 the Bank was concentrating its efforts on the cash loan sale to credit card holders (ALOP). The funds from the loan may be used for any purpose. The product is distributed through tele-sales channel and the bank plans to expand the distribution in Q2 2014 to include online banking.

Mortgage products

The mortgage portfolio balance was PLN 1.1 billion at the end of Q1 2014, representing an increase of 12% YoY and 3% QoQ.

The Bank maintained its competitive offer of the product addressed to selected client segments based on client’s relationship with the Bank. The product offers competitive pricing coupled with quick credit approval process.

Insurance and investment products

As at the end of Q1 2014, the total value of funds managed in investment products (including certificates of deposit, dual currency investments, investment deposits and insurance products) purchased by retail customers via the Bank was higher by 12.3% as compared to the corresponding period of 2013 and by 2.7% QoQ.

Increases in the previous quarters were mainly noted in investment funds, bonds (treasury and corporate) as well as the Bank’s customers’ funds in instruments on the securities accounts kept by DMBH.

As part of its cooperation with DMBH, customers were offered 3 issues of certificates of closed-end funds.

In February 2014 the Bank implemented a modified version of the unit-linked life insurance with a regular premium, offered to customers on more attractive terms.

Structured products

In terms of structured products, in Q1 2014 the Bank offered 14 subscriptions of structured bonds and one investment life insurance.

Investment advisory

On 31 March 2014 the Bank added recommendations for EUR and USD-denominated mutual funds to the investment advisory offer for Gold and Gold Select customers. The new functionality allows customers to additionally select: the currency of the recommendation (USD and EUR in addition to PLN), the degree of diversification (basic or comprehensive), the investment strategy (one of 7 available) and the recommendation horizon.

2.4. Development of distribution channels

Mobile banking

As at the end of Q1 2014, the number of active users of the Citi Mobile platform, i.e. users who have used mobile banking once in 30 days, was over 54,000, up by 69% as compared to Q1 2013. The share of active mobile banking users in the entire Citi Handlowy customers portfolio was 7.2%, up by 3.3 pp as compared to the corresponding period of 2013.

Since the Citi Mobile platform was made available, i.e. since May 2010, the application was downloaded 170,000 times. Citi Handlowy app for iPad alone was downloaded over 8,000 times since it was published (Q3 2013).

In Q1 2014, the customers made 4,700 transactions for a total amount of PLN 920,000 using the Fotokasa service which allows to pay VAT invoice quickly by reading 2D codes. In Q1 2014, P4 Sp. z o.o. (Play) also joined the group of companies which make 2D codes available for FotoKasa.

Internet banking

The number of active users of Citibank Online, i.e. those who logged on at least once in the last 30 days, was 331,000 as at the end of Q1 2014, up by 13% as compared to the corresponding period of 2013.

The share of active Citibank Online users in the Bank's customer portfolio was 43.5% as at the end of Q1 2014, up by 8.4 pp as compared to Q1 2013. In Q1 2014 the number of active digital users also increased by 15% to 336,000 as compared to the corresponding period of 2013 (digital users are those users who used Citibank Online or Citi Mobile and Citi Handlowy for iPad on different devices at least once in a month). The share of active digital users in the Bank's customer portfolio was 44% as at the end of Q1 2014, up by 9 pp as compared to the end of Q1 2013.

The share of transactions in the Internet and mobile banking channels in all banking transactions as at the end of Q1 2014 was 93%, up by 4 pp as compared to the corresponding period of 2013.

Acquisition in the Internet channels in Q1 2014 improved significantly as compared to Q1 2013. The number of credit cards sold on-line increased by 61% as compared to Q1 2013 and the average amount of granted loans increased by 46% as compared to the corresponding period in the previous year. Internet sale of deposits constituted over 10% of total sales of the deposit products.

Towards the end of Q1 2014, the Online Fulfillment process was initiated for personal accounts, enabling customers to conclude agreements with the Bank via the Citibank Online e-banking platform without visiting a branch or delivering documents by courier.

Indirect and Direct Customer Acquisitiona

- **Citibank at Work**

Citibank at Work is a convenient and time saving program addressed to employees of corporate customers of the Bank offering products and services on preferential terms.

In Q1 2014, Citibank at Work continued to execute on the strategy designed to grow the portfolio of CitiForward client segment where an increase in acquisition and active accounts was reported by 48% and 108%, respectively, versus the year ago period. In the reported period a 41% growth in cash loan distributed by Citibank at Work was recorded YoY.

- **Direct Sales**

Direct Sales Channel is the primary acquisition pillar of the Bank in terms of credit card distribution. The credit card sale through the Direct Sales Channel grew by 70% versus the prior year period. The Bank successfully continued its direct sales strategy focused on acquiring clients from Poland's largest cities through a distribution network comprising 31 stands in shopping malls, 4 stands located at airports and 33 POS located across popular movie theatre networks (Multikino and Cinema City) as well as through eight other partners (PB petrol stations and Aqua Parks). Additionally, the Bank continued to grow its remote channels by Tele-Sales Agents selling credit cards to both existing and new clients.

3. Branch network

Smart Banking Ecosystem

In 2014 the Bank rolled out its Smart Banking Ecosystem in two new locations: Poznań and Wrocław. Both branches have floor area of about 100m2 each and are designed with the use of the latest technologies, i.e. wall screens displaying market news and the latest promotional offers, interactive screens displaying product offerings, discounts with local partners or benefit calculators, as well as touch screens that enable self-service or applying for banking products online.

Smart branches are designed to fit the lifestyle and needs of today's clients – they are located in popular and convenient spots, such as shopping malls, and are open 7 days a week. They offer special benefits for clients, such as PLN 100 shopping coupons to be used in partner's shops, unique product offers such as Citibank Credit Card with no fees for 2 years and cash back in the amount of PLN 200 or dedicated discounts with the Discount Program across the whole shopping mall. The bank, as the only banking institution in the market, issued a debit card or a credit card during one visit only, and thanks to simple and intuitive online application forms available only in Smart branches, clients may get all these promotional products and services within a few minutes.

Unique offer, convenient location and long opening hours of Smart branches resulted in their effectiveness being a few times higher than that of traditional branches. Additionally, the newly acquired clients constituted on average from 12% to 60% of the total clients of each branch. The number of products sold per client also grew - in Smart locations around 75% of clients purchase cross sold products. This result from a holistic approach based on individually tailored product offer. A revolutionary design of the Smart branches is also a key enabler of this efficiency.

Changes in branch network

In Q1 2014, the Bank continued its works to improve the quality of CitiGold customer service in dedicated branches. The aim behind these efforts was to improve the sales of the Bank's products by, for example, change in the management and sales coordination models. The plans included also an increase of human resources and expansion of CitiGold customer service zones. As part of these plans, Citigold branch in Kraków at 7 Karmelicka Str was redesigned to deliver on the CitiGold segment growth strategy.

At the end of Q1 2014, the branch network of the Bank comprised 60 outlets. As part of optimization activities, the Bank closed the operating activity of branches in Łódź, Poznań, Szczecin, Warsaw and Wrocław.

Number of branches and other Points of Sale/touch points

	Q1 2014	Q4 2013	Q1 2013	Change QoQ	Change YoY
Number of branches*:	60	65	87	(5)	(27)
HUB Gold	11	11	12	-	(1)
Blue	44	50	73	(6)	(29)
Investment Center	2	2	2	-	-
Smart branch	3	2	-	1	3
Other PoS/touch points:					
Financial agents (Open Finance, Expander and other)	274	274	274	-	-
Airports	4	4	5	-	(1)
Shopping malls and cinemas	64	70	23	(6)	41
Other (BP petrol stations)	8	2	-	6	8
Cash points (Billbird and Brinks)	9	11	20	(2)	(11)
Own ATMs	86	93	115	(7)	(29)

** Branches classified according to a type of provided services into: HUB Gold (branches with separate CitiGold customer service zones), Blue (branches without separate CitiGold zones), Investment Center and Smart.*

9 Rating

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

In the first quarter of 2014, the ratings of the Bank did not change. The latest rating action was taken by Moody's on 22 June 2012, whereas Fitch confirmed ratings at the same levels on 14 April 2014.

At the end of the first quarter of 2014, Moody's rated the Bank as follows:

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

At the end of the first quarter of 2014, Fitch rated the Bank as follows:

Long-term Issuer Debt Rating	A-
Outlook	*Stable*
Short-term Issuer Debt Rating	F2
Viability rating (VR)*	bbb+
Support rating	1

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

The Standard & Poor's rating (developed on the basis of publicly available information) remained unchanged in the first quarter of 2014 at "BBBpi" (rating confirmed on 15 November 2013).

10 Financial instruments disclosure

Fair value of financial assets and liabilities

The summary below provides statement of financial position (by category) and fair value information for each category of financial assets and liabilities.

PLN '000	31.03.2014		31.12.2013	
	Balance value	Fair value	Balance value	Fair value
Financial assets				
Amounts due from banks	4,095,342	4,095,603	3,539,927	3,540,153
Amounts due from customers	17,988,546	17,989,008	15,231,327	15,235,756
Financial liabilities				
Amounts due to banks	6,893,397	6,895,576	6,378,436	6,380,167
Amounts due to customers	26,570,206	26,569,566	26,568,765	26,568,234

With exception to information provided in the table above and investments in equity instruments available-for-sale, the balance value of other assets and financial liabilities included in the consolidated statement of financial position are equal to fair value because of their short-term nature.

Investments in equity instruments available-for-sale do not have value that is actively priced at the market and their fair value cannot be reliable estimated.

According to the Group's strategy, presented equity investments will be gradually reduced except for selected strategic investments in "infrastructure companies" that provide services to the financial sector. Particular entities will be sold at the most suitable time under market conditions.

In first quarter 2014 the Group disposed off its minority shareholding in Kuźnia Polska S.A., representing 5.20% of the share in the capital and 5.20% of votes at the General Meeting of Shareholders. The balance value of sold Kuźnia Polska S.A. shares amounted PLN 1,536 thousand and the gain on the sale amounted PLN 2,855 thousand.

Valuation methods and assumptions used for the purposes of fair value

Fair value of assets and financial liabilities are valuated as follows:

- The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

  The Group applies the following methods of measurement of particular types of derivative instruments:
  - FX forwards – discounted cash flows model;
  - options – option market-based valuation model;
  - interest rate transactions – discounted cash flows model;
  - futures – current quotations.
- For valuation securities transactions - currents quotations are used or in case no quotations are available, adequate models based on discount and forward curves including decrease of credit spread if needed.
- The fair value of other assets and financial liabilities (excluding described above) are estimated with accordance to models used for valuation and discounted cash flows analysis and takes into account fluctuations in market interest rates as well as changes in margins during the financial period.

Fair value included in consolidated statement of financial position

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets / liabilities valued directly on the basis of prices from an active market where the regular quotations and turnover are available.

  The active market includes stock and brokerage quotes and quotes in such systems as pricing services, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include securities held-for-trading or available-for-sale;
- Level II: financial assets / liabilities valued on the basis of models based on input data from the active market and presented in Reuters and Bloomberg systems, depending on financial instruments, the following specific valuation techniques are used:
  - listed market prices for a given instrument or listed market prices for an alternative instrument,
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
  - other techniques, such as yield curves based on alternative prices for a given financial instrument;
- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant parameters not market-based (counterparty credit risk).

The tables below present carrying amounts of assets and financial liabilities presented in the consolidated statement of financial position measured at fair value, arranged according to the above categories:

As at 31 March 2014

PLN '000	Level I	Level II	Total
Financial assets			
Financial assets held-for-trading	4,069,531	3,542,708	7,612,239
derivatives	54	3,438,407	3,438,461
debt securities	4,040,791	104,301	4,145,092
capital instruments	28,686	-	28,686
Debt securities available-for-sale	6,298,910	7,099,972	13,398,882
Financial liabilities			
Financial liabilities held-for-trading	1,425,503	3,769,950	5,195,453
short sale of securities	1,425,281	-	1,425,281
derivatives	222	3,769,950	3,770,172

As at 31 December 2013

PLN'000	Level I	Level II	Total
Financial assets			
Financial assets held-for-trading	2,108,682	3,643,147	5, 751,829
derivatives	2,116	3,529,010	3,531,126
debt securities	2,101,536	114,137	2,215,673
equity instruments	5,030	-	5,030
Debt securities available-for-sale	6,578,656	11,037,385	17,616,041
Financial liabilities			
Financial liabilities held-for-trading	481,804	3,715,092	4,196,896
short sale of securities	481,601	-	481,601
derivatives	203	3,715,092	3,715,295
Hedging derivatives	-	24,710	24,710

Except assets described above tangible assets available-for-sale are shown in consolidated statement of financial position, which fair value decreased by sale cost is lower than its carrying amount. In consequence they are shown in consolidated statement of financial position by fair value, which as at 31 March 2014 was PLN 3,458 thousands (31 December 2013: PLN 2,653 thousands).

In the 3 month period of 2014, the Group did not make any transfers between the levels of fair value of financial instruments due to the method used to determine fair value.

In the 3 month period of 2014 the Group has not made any changes in principles of financial instruments' classification (presented in the consolidated statement of financial position at fair value) to the separate categories of fair value establishing method used (level I, level II, level III).

In the 3 month period of 2014 the Group has not made any changes in financial assets classification that may result from asset's purpose or usage change.

In the first quarter 2014 there were no significant changes in business conditions and economic circumstances which might impact on fair value of financial assets and liabilities of the Group, regardless of whether these assets and liabilities are recognized by fair value or amortized cost.

11 Impairment and provisions

PLN '000	As at 1 January 2014	Increases		Decreases				As at 31 March 2014
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale fo receivables/other assets	Other*	
Impairment of financial assets								
Amounts due from banks	1,173	588	25	(1,349)	-	-	-	437
Amounts due from customers	984,033	55,974	236	(59,999)	(1,765)	-	(339)	978,140
	985,206	56,562	261	(61,348)	(1,765)	-	(339)	978,577
Provisions for granted financial and guarantee liabilities	13,150	7,252	-	(6,996)	-	-	-	13,406
	998,356	63,814	261	(68,344)	(1,765)	-	(339)	991,983
Other assets impairment								
Capital investment	20,630	-	-	-	-	(6,052)	-	14,578
Tangible assets available for sale	1,058	369	-	-	-	(31)	-	1,396
Other assets	643	179	-	(56)	(315)			451
	22,331	548	-	(56)	(315)	(6,083)	-	16,425
Total impairment of assets and provisions for granted financial and guarantee liabilities	1,020,687	64,362	261	(68,400)	(2,080)	(6,083)	(339)	1,008,408
Other provisions								
Contentious issues	15,313	2,657	-	(680)	-	-	-	17,290
Restructuring	60,821	1,271	-	-	-	-	(16,862)	45,230
Total other provisions	76,134	3,928	-	(680)	-	-	(16,862)	62,520

*Position "other" mainly covers FX differences and provisions used

PLN '000	As at 1 January 2013	Increases		Decreases				As at 31 December 2013
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale fo receivables/other assets	Other*	
Impairment of financial assets								
Amounts due from banks	126	2,697	11	(1,661)	-	-	-	1,173
Amounts due from customers	1,130,927	244,831	1,044	(261,860)	(125,597)	(5,021)	(291)	984,033
	1,131,053	247,528	1,055	(263,521)	(125,597)	(5,021)	(291)	985,206
Provisions for granted financial and guarantee liabilities	11,476	32,528	-	(30,854)	-	-	-	13,150
	1,142,529	280,056	1,055	(294,375)	(125,597)	(5,021)	(291)	998,356
Other assets impairment								
Capital investment	26,667	-	-	-	-	(6,037)	-	20,630
Tangible assets available for sale	1,082	-	-	-	-	(24)	-	1,058
Other assets	5,598	1,623	93	(921)	(5)	-	(5,745)	643
	33,347	1,623	93	(921)	(5)	(6,061)	(5,745)	22,331
Total impairment of assets and provisions for granted financial and guarantee liabilities	1,175,876	281,679	1,148	(295,296)	(125,602)	(11,082)	(6,036)	1,020,687
Other provisions								
Contentious issues	11,145	9,646	12	(424)	-	-	(5,066)	15,313
Restructuring	3,741	64,913	-	(512)	-	-	(7,321)	60,821
Other	2,294	1,142	-	(1,098)	-	-	(2,338)	-
Total other provisions	17,180	75,701	12	(2,034)	-	-	(14,725)	76,134

*Position "other" mainly covers FX differences and provisions used

In the period 1 January – 31 March 2014 and in 2013 the Group has not made any value actualization write downs due to value loss of tangible assets, intangible assets and write downs reversals involving this subject.

12 Provision and asset due to differed income tax

PLN '000	31.03.2014	31.12.2013
Asset due to differed income tax	837,177	830,120
Provision due to differed income tax	(620,033)	(626,988)
Net asset due to differed income tax	217,144	203,132

Provisions and assets due to differed income tax are show in the consolidated statement of financial position after compensation.

13 Purchase and sale transactions of tangible assets

In the period 1 January – 31 March 2014 the value of purchased by the Group components of "fixed assets" equaled PLN 7,370 thousand (in 2013: PLN 28,286 thousand); the value of sold components equals PLN 633 thousand (in 2013: PLN 4,525 thousand).

As at 31 March 2014 the Group has significant contract liabilities amounted PLN 1 million due to future purchase of tangible assets

14 Default or breach due to received credit agreement in respect of which there were no corrective action until the end of the reporting period

Between 1 January and 31 March 2014 in the Group has been no occurrence of default or breach due to received credit agreement.

15 Seasonality or periodicity of business activity

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

16 Issue, redemption and repayment of debt and equity securities

In the 3 month period of 2014 no issue, pay back or repurchase of debt or equity securities had place.

17 Paid or declared dividends

Dividends declared

At the meeting on 19 March 2014, Supervisory Board of the Bank Handlowy w Warszawie S.A. considered and approved the proposal of the Management of the Bank concerning to profit for 2013 distribution, including the proposal of destination to pay out PLN 934,216,140.00, i.e. 99,9% of standalone net profit from 2013, as a dividend, which will be paid in the form of cash, resulting from, accepted by the Management Board on 4 March 2014 and approved by the Supervisory Board on 19 March 2014, the annual standalone financial statements of the Bank for the financial year ending 31 December 2013. Above mentioned proposal determined the payout for single share at PLN 7.15.

Simultaneously, the Supervisory Board examined and approved the proposal of the Management Board on the date the dividend on 7 July 2014 and the date of pay out on 29 August 2014.

This proposal will be submitted to the General Meeting of Shareholders for approval.

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

As at 31 March 2014 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.

19 Changes in granted financial and guarantee commitments

The detailed specification of granted financial and guarantee commitments as at 31 March 2014 and changes in comparison with the end of 2013 are as follows:

PLN '000	State as at		Change	
	31.03.2014	31.12.2013	PLN '000	%
Contingent liabilities granted				
financial	14,591,476	14,085,282	506,194	3.6
Import letters of credit issued	147,666	135,060	12,606	9.3
Credit lines granted	12,164,011	12,199,651	(35,640)	(0.3)
Subscription of securities granted to other issuers	1,500,750	1,508,050	(7,300)	(0.5)
Reverse repo transactions with future currency date	779,049	242,521	536,528	221.2
guarantees	1,818,239	1,815,857	2,382	0.1
Guarantees granted	1,785,783	1,775,108	10,675	0.6
Export letters of credit confirmed	5,779	2,509	3,270	130.3
Other	26,677	38,240	(11,563)	(30.2)
	16,409,715	15,901,139	508,576	3.2
Contingent liabilities received				
financial (deposits to receive)	548,115	1,247,960	(699,845)	(56.1)
guarantees (guarantees received)	5,444,618	4,970,167	474,451	9.5
	5,992,733	6,218,127	(225,394)	(3.6)
Contingent transactions due to FX, securities and derivatives (granted/received liabilities)				
Current*	3,920,945	2,249,655	1,671,290	74.3
Forward **	274,035,485	254,642,942	19,392,543	7.6
	277,956,430	256,892,597	21,063,833	8.2

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

*** Derivatives: FX, interest rate transactions and options*

20 Changes in Group's structure

In the first quarter of 2014 the structure of the Group has not changed as a result of merger, acquisition or disposal of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

21 Achievement of 2014 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2014.

22 Information about shareholders

As at the day of publishing the Interim Statement for the first quarter 2014 the list of shareholders who held directly or indirectly through subsidiaries 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	75.0	97,994,700	75.0
Other Shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	130,659,600	100.0	130,659,600	100.0

In the period between publishing the interim consolidated financial statements for the third quarter 2013, consolidated financial report for 2013 and publishing this report for the first quarter 2014 the structure of major shareholdings has not undergone any changes.

23 Ownership of issuer's shares by members of the Management Board and Supervisory Board

According to the best knowledge of the Bank – the dominant entity, the number of Bank's shares held by members of Management and Supervisory Board is presented below:

Name and surname	Function	Number of shares on day of publishing the Interim Financial Statement for the first quarter 2014	Number of shares on day of publishing the Consolidated Financial Report for 2013	Number of shares on day of publishing the Interim Financial Statement for the third quarter 2013
Iwona Dudzińska	Member of the Managing Board	600	600	600
Andrzej Olechowski	Chairman of Supervisory Board	1,200	1,200	1,200
Total		1,800	1,800	1,800

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

24 Information on pending proceedings

In the first quarter 2014 there was no single proceeding regarding receivables and liabilities of the Bank or its subsidiary pending in court, public administration authority or an arbitration authority, the value of which would equal at least 10% of Bank's equity.

The total value of all legal proceedings regarding receivables or liabilities, with the participation of the Bank and its subsidiaries, in the first quarter 2014 did not exceed 10% of the Bank's equity.

The total value of liabilities of the Bank and the Bank's subsidiaries due to proceedings regarding to liabilities in the first quarter 2014 did not exceed 10% of the Bank's equity.

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

In the case of legal proceedings involving the risk of cash outflow due to fulfillment of the obligation created by the Group are adequate reserves.

As at 31 March 2014, the Bank was among others a party to 31 court proceedings regarding derivative transactions: in 22 proceedings the Bank acted as a defendant and in 8 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. As at the date of preparation of the financial statements, 7 legally valid court decisions were issued - 5 in favor of the Bank and 2 unfavorable - in litigation related to term financial operations, where the Bank acted as defendant or plaintiff; and in 7 cases the Bank reached a settlement.

The Bank is a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The proceedings concern alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. On 22 April 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. In its decision of 8 May 2012, SOKiK suspended the proceedings until the legally valid closing of proceedings before the Court of Justice of the European Union in a case brought by MasterCard against a decision of the European Commission (ref. no. T 111/08). An appeal was filed against the SOKiK decision of 8 May 2012 with the Appeal Court. On 25 October 2012, the Appeal Court changed the appealed decision by dismissing the application for suspension of the proceedings. The Appeal Court decided that, in view of the case involving the Bank and considered by SOKiK being different from the proceedings before the Court of Justice of the European Union in the case brought by MasterCard against a decision of the European Commission (ref. no. T 111/08), it is not admissible to conclude that the proceedings before the Court of Justice of the European Union are prejudicial proceedings for the case considered by SOKiK. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set up at the amount of PLN 1,775,720.00. SOKiK dismissed the appeals of the banks in the remaining range, refusing to consider the interchange fee agreements as complying with the law and to include them into the agreements covered with the individual exemptions as in article 11 paragraph 2 in relation to article 7 paragraph 1 of the Act on protection of competition and customers of 15 December 2000, indicating that the banks did not prove there are indications for such an exemption. The judgment is invalid and is likely to be verified of instance due to appealing by the Bank and other parties against the judgment of SOKiK. After the proceeding before the Court of Appeal, the judgment of SOKiK may be maintained, set aside or amended.

In the first quarter 2014 the Group did not make any significant settlement due to court ended with the final judgment.

25 Information about significant transactions with related entities dealt on other than market terms

In the first quarter of 2014, the Bank and its subsidiaries entered into transactions with related entities. All transactions with related entities were dealt on market terms.

26 Information about guarantee agreements

At the end of the first quarter of 2014, the total value of sureties and guarantees given by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's shareholders' equity.

27 Other significant information

Personal changes in the Bank's bodies

On 5 March 2014 the President of the Bank's Supervisory Board accepted the resignation of Misbah Ur-Rahman-Shah from the function of the member of the Management Board from 18 March 2014.

On 19 March 2014 Maciej Kropidłowski was appointed to the position of the Vice-President of the Bank's Management Board.

28 Factors and events which could affect future financial performance of the Bank's Capital Group

Rising geopolitical tensions in the Eastern Europe which might lead to a deep slowdown or recession in Ukraine and Russia is a major risk for the Polish economy. Deterioration of the activity in this region or possible economic sanctions could negatively impact the trade flows of Poland and lead to a slowdown in the economy. Given the geopolitical uncertainty, there is also a risk of cyclic volatility growth on the financial markets and delays in investment projects by Polish companies.

Another threat to the Poland's economy remains the uncertainty regarding the pace and direction of monetary policy changes of the largest central banks. The non-standard monetary policy of ECB and gradually shift towards monetary policy tightening in the United States could increase volatility on the financial market.

If the economies of Poland's main trade partner fail to see a recovery, Poland's economic growth would be limited and it would hamper the fiscal policy management. The slowdown in economic growth and deterioration of the situation on the labour market would impact the dynamics of household income to be lower than expected. Such scenario could lead to further cuts of interest rates by the Monetary Policy Council.

The above factors may influence the Group's financial performance in subsequent periods.

Condensed interim standalone financial statements of the Bank for the first quarter 2014

Condensed income statement

PLN '000	First quarter accruals period from 01.01.14 to 31.03.14	Firstquarter accruals period from 01.01.13 to 31.03.13
Interest and similar income	376,258	437,061
Interest expense and similar charges	(86,877)	(115,534)
Net interest income	289,381	321,527
Fee and commission income	166,900	162,107
Fee and commission expense	(22,967)	(23,490)
Net fee and commission income	143,933	138,617
Net income on trade financial instruments and revaluation	125,067	120,874
Net gain on debt investment securities	39,632	171,964
Net gain on investments in capital instruments	2,855	1,844
Hedge accounting income	(709)	-
Other operating income	17,852	20,237
Other operating expenses	(12,347)	(10,512)
Net other operating income	5,505	9,725
General administrative expenses	(290,391)	(321,280)
Depreciation of fixed and intangible assets	(16,934)	(11,442)
Profit/(loss) on sale of other assets	153	68
Result on write-off due to impairment of financial assets and provisions for off-balance sheet liabilities	2,336	(11,814)
Profit before tax	300,828	420,083
Income tax expense	(60,037)	(80,048)
Net profit	240,791	340,035
Weighted average number of ordinary shares (in pcs)	130,659,600	130,659,600
Net earnings per share (in PLN)	1.84	2.60
Diluted net earnings per share (in PLN)	1.84	2.60

Condensed statement of comprehensive income

PLN '000	First quarter accruals period from 01.01.14 to 31.03.14	First quarter accruals period from 01.01.13 to 31.03.13
Net income	240,791	340,035
Other comprehensive income which may be reclassified to income statement:		
Valuation of financial assets available-for-sale (net)	(28,071)	(185,696)
Total comprehensive income	212,720	154,339

Condensed statement of financial position

PLN '000 State as at	31.03.2014	31.12.2013
ASSETS		
Cash and balances with the Central Bank	1,989,294	778,464
Amounts due from banks	4,095,271	3,539,922
Financial assets held-for-trading	7,583,553	5,746,799
Debt securities available-for-sale	13,398,882	17,616,041
Capital investment	245,909	247,483
Amounts due from customers	17,579,982	14,811,383
Tangible fixed assets	352,576	355,655
Intangible assets	1,407,246	1,415,204
Receivables due to current income tax	64,097	72,837
Asset due to deferred income tax	217,492	204,035
Other assets	204,957	161,196
Fixed assets held-for-sale	13,544	12,738
Total assets	47,152,803	44,961,757
LIABILITIES		
Amounts due to banks	6,708,169	6,172,957
Financial liabilities held-for-trading	5,195,453	4,196,896
Hedging derivatives	-	24,710
Amounts due to customers	26,631,646	26,634,357
Provisions	75,343	88,701
Other liabilities	1,108,250	622,914
Total liabilities	39,718,861	37,740,535
EQUITY		
Share capital	522,638	522,638
Share premium	2,944,585	2,944,585
Revaluation reserve	(71,261)	(43,190)
Other reserves	2,862,407	2,862,407
Retained earnings	1,175,573	934,782
Total equity	7,433,942	7,221,222
Total liabilities and equity	47,152,803	44,961,757

Condensed statement of changes in equity

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2014	522,638	2,944,585	(43,190)	2,862,407	934,782	7,221,222
Total comprehensive income, including:	-	-	(28,071)	-	240,791	212,720
Net profit	-	-	-	-	240,791	240,791
Valuation of financial assets available-for-sale (net)	-	-	(28,071)	-	-	(28,071)
Balance as at 31 March 2014	522,638	2,944,585	(71,261)	2,862,407	1,175,573	7,433,942

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2013	522,638	2,944,585	257,579	2,610,228	1,008,698	7,343,728
Total comprehensive income, including:	-	-	(185,696)	-	340,035	154,339
Net profit	-	-	-	-	340,035	340,035
Valuation of financial assets available-for-sale (net)	-	-	(185,696)	-	-	(185,696)
Balance as at 31 March 2013	522,638	2,944,585	71,883	2,610,228	1,348,733	7,498,067

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2013	522,638	2,944,585	257,579	2,610,228	1,008,698	7,343,728
Total comprehensive income, including:	-	-	(300,769)	-	934,782	634,013
Net profit	-	-	-	-	934,782	934,782
Valuation of financial assets available-for-sale (net)	-	-	(300,769)	-	-	(300,769)
Dividends paid	-	-	-	-	(756,519)	(756,519)
Transfer to capital	-	-	-	252,179	(252,179)	-
Balance as at 31 December 2013	522,638	2,944,585	(43,190)	2,862,407	934,782	7,221,222

Condensed summary statement of cash flows

PLN '000	First quarter accruals period from 01.01.14 to 31.03.14	First quarter accruals period from 01.01.13 to 31.03.13
Cash at the beginning of the reporting period	1,120,157	1,533,791
Cash flows from operating activities	839,040	(265,737)
Cash flows from investing activities	(8,274)	(12,942)
Cash flows from financing activities	93,010	(11,798)
Cash at the end of the reporting period	2,043,933	1,243,314
Increase / Decrease in net cash	923,776	(290,477)

Condensed additional information

1. Declaration of conformity

These condensed interim standalone financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting, 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 standalone financial statements of the Bank for the financial year ended 31 December 2013 and condensed interim consolidated financial statement of the Group for the first quarter 2014.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2014, item 133) the Bank is obliged to publish its financial results for the 3 month period ended 31 March 2014 which is deemed to be the current interim financial reporting period.

2. Significant accounting policies

Condensed interim standalone financial statements of the Bank for the first quarter of 2014 have been prepared in accordance with the Decree by virtue of which the issuer, being a parent entity, is not obliged to provide separate interim financial statements, on condition that it includes in the consolidated interim financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and condensed supplementary notes, comprising of information and data significant for the assessment of the issuer's financial standing and its profit or loss, but not presented in the interim consolidated financial statement. In addition, it's required to prepare the condensed interim financial statements in accordance with accounting principles adopted in the preparation process of the annual financial statements.

Principles adopted in the preparation process of these condensed interim standalone financial statement are consistent with the principles, described in the annual standalone financial statements of the Bank for the financial year ended 31 December 2013.

Other information and explanations concerning these condensed interim consolidated financial statements for the first quarter 2014 contain also all information and explanatory data essential for these condensed interim standalone financial statements.

The summary of Bank's financial results for the first quarter of 2014 is presented below.

Bank's financial results

In first quarter 2014 the Bank has generated profit before tax of PLN 301 million, in comparison to PLN 420 in the corresponding period of 2013. In the same period the profit before tax was PLN 241 million, comparing to PLN 340 million in the corresponding period of 2013.

The significant impact on the Bank net profit in the first quarter 2014 had the decrease of financial instruments result (trade financial instruments and revaluation, debt securities and capital securities) by total of PLN 127 million (43.1%), decrease in interest and commission income by PLN 27 million (5.8%), decrease in banking activity costs and general administrative costs and depreciation by PLN 25 million (7.6%), decrease in (net) impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities by PLN 14 million (119.8%), decrease of financial result on other operating income and expenses as well as income on sale of other assets by PLN 4 million (42.2%) and lower income tax burden by PLN 20 million (25.0%).

The consolidated quarter report for the first quarter of 2014 will be 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
08.05.2014	08.05.2014 ....