



INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS  
OF THE CAPITAL GROUP OF  
BANK HANDLOWY W WARSZAWIE S.A.  
FOR THE THIRD QUARTER 2014

NOVEMBER 2014

Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.  
for the third quarter 2014

TRANSLATION

SELECTED FINANCIAL DATA	PLN '000		EUR '000***	
	Third quarter accruals period from 01.01.14 to 30.09.14	Third quarter accruals period from 01.01.13 to 30.09.13	Third quarter accruals Period from 01.01.14 to 30.09.14	Third quarter accruals period from 01.01.13 to 30.09.13
<b>Data related to the interim condensed consolidated financial statements</b>				
Interest income	1,153,433	1,256,592	275,921	297,552
Fee and commission income	552,817	569,478	132,243	134,848
Profit before tax	909,356	1,020,077	217,534	241,547
Net profit	742,310	820,961	177,573	194,398
Comprehensive income	842,989	495,546	201,658	117,342
Increase of net cash	(109,656)	1,158,402	(26,232)	274,301
Total assets*	50,275,499	45,398,389	12,040,594	10,946,757
Amounts due to banks*	8,790,274	6,378,436	2,105,203	1,538,010
Amounts due to customers*	26,443,895	26,568,765	6,333,109	6,406,434
Equity	7,215,655	7,130,442	1,728,094	1,691,161
Ordinary shares	522,638	522,638	125,168	123,957
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	55.22	54.57	13.23	12.94
Capital adequacy ratio (%)*	16.4	17.5	16.4	17.5
Earnings per share (PLN / EUR)	5.68	6.28	1.36	1.49
Diluted earnings per share (PLN / EUR)	5.68	6.28	1.36	1.49
<b>Data related to the interim condensed standalone financial statements</b>				
Interest income	1,144,841	1,242,297	273,866	294,167
Fee and commission income	502,553	503,860	120,219	119,310
Profit before tax	933,152	983,918	223,226	232,985
Net profit	769,508	790,367	184,080	187,153
Comprehensive income	869,998	464,027	208,119	109,878
Increase of net cash	(95,528)	1,168,871	(22,852)	276,780
Total assets*	49,547,558	44,961,757	11,866,257	10,841,473
Amounts due to banks*	8,655,352	6,172,957	2,072,890	1,488,464
Amounts due to customers*	26,547,482	26,634,357	6,357,917	6,422,250
Equity	7,157,004	7,051,236	1,714,047	1,672,375
Ordinary shares	522,638	522,638	125,168	123,957
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	54.78	53.97	13.12	12.80
Capital adequacy ratio (%)*	16.4	17.0	16.4	17.0
Earnings per share (PLN/EUR)	5.89	6.05	1.41	1.43
Diluted earnings per share (PLN / EUR)	5.89	6.05	1.41	1.43
Declared or paid dividends per share (PLN/EUR)**	7.15	5.79	1.71	1.37

\*Comparative balance data according as at 31 December 2013.

\*\*The presented ratios are related to paid in 2014 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 30 September 2014 - PLN 4.1755 (as at 31 December 2013: PLN 4.1472; as at 30 September 2013 - PLN 4.2163); 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, second and third quarter of 2014 - PLN 4.1803 (in the first, second and third quarter of 2013: PLN 4.2231).

CONTENTS

<b>CONTENTS</b>	<b>3</b>
<b>Condensed consolidated income statement</b>	<b>4</b>
<b>Condensed consolidated statement of comprehensive income</b>	<b>5</b>
<b>Condensed consolidated statement of financial position</b>	<b>6</b>
<b>Condensed consolidated statement of changes in equity</b>	<b>7</b>
<b>Condensed consolidated statement of cash flows</b>	<b>8</b>
<b>Supplementary notes to the interim condensed consolidated financial statements</b>	<b>8</b>
1 General information about the Bank and the Capital Group	8
2 Declaration of conformity	9
3 Principles accepted at the composition of the consolidated financial statements	9
5 Situation in the banking sector	12
6 Financial analysis of the results of the Capital Group of the Bank	13
7 Segment reporting	19
8 Activities of the Group	20
9 Rating	31
10 Financial instruments disclosure	32
11 Impairment and provisions	34
12 Provision and asset due to differed income tax	35
13 Purchase and sale transactions of tangible assets	35
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	36
15 Seasonality or periodicity of business activity	36
16 Issue, redemption and repayment of debt and equity securities	36
17 Paid or declared dividends	36
19 Changes in granted financial and guarantee commitments	36
20 Changes in Group's structure	37
21 Achievement of 2014 forecast results	37
22 Information about shareholders	37
23 Ownership of issuer's shares by members of the Management Board and Supervisory Board	37
24 Information on pending proceedings	38
25 Information about significant transactions with related entities dealt on other than market terms	39
26 Information about guarantee agreements	39
<b>Condensed interim standalone financial statements of the Bank for the third quarter 2014</b>	<b>40</b>

## Condensed consolidated income statement

<i>PLN '000</i>	Third quarter period from 01.07.14 to 30.09.14	Third quarter accruals period from 01.01.14 to 30.09.14	Third quarter period from 01.07.13 to 30.09.13	Third quarter accruals period from 01.01.13 to 30.09.13
Interest and similar income	386,151	1,153,433	402,396	1,256,592
Interest expense and similar charges	(82,030)	(254,108)	(96,196)	(312,763)
<b>Net interest income</b>	<b>304,121</b>	<b>899,325</b>	<b>306,200</b>	<b>943,829</b>
Fee and commission income	173,971	552,817	181,637	569,478
Fee and commission expense	(29,578)	(84,297)	(28,646)	(87,727)
<b>Net fee and commission income</b>	<b>144,393</b>	<b>468,520</b>	<b>152,991</b>	<b>481,751</b>
<b>Dividend income</b>	<b>100</b>	<b>5,782</b>	<b>121</b>	<b>4,346</b>
<b>Net income on trading financial instruments and revaluation</b>	<b>65,936</b>	<b>297,261</b>	<b>28,153</b>	<b>266,006</b>
<b>Net gain on debt investment securities</b>	<b>57,709</b>	<b>162,997</b>	<b>32,037</b>	<b>285,335</b>
<b>Net gain on equity investment instruments</b>	<b>671</b>	<b>3,526</b>	<b>-</b>	<b>1,844</b>
<b>Net gain/(loss) on hedge accounting</b>	<b>330</b>	<b>(379)</b>	<b>-</b>	<b>-</b>
Other operating income	14,537	45,116	10,231	43,885
Other operating expenses	(10,529)	(33,241)	(11,053)	(34,932)
<b>Net other operating income</b>	<b>4,008</b>	<b>11,875</b>	<b>(822)</b>	<b>8,953</b>
<b>General administrative expenses</b>	<b>(286,157)</b>	<b>(892,739)</b>	<b>(295,764)</b>	<b>(944,657)</b>
<b>Depreciation and amortization</b>	<b>(17,626)</b>	<b>(53,810)</b>	<b>(17,109)</b>	<b>(43,904)</b>
<b>Profit on sale of other assets</b>	<b>595</b>	<b>892</b>	<b>590</b>	<b>752</b>
<b>Net impairment due to financial assets and provisions for granted financial liabilities and guarantees</b>	<b>7,768</b>	<b>5,771</b>	<b>(1,564)</b>	<b>17,164</b>
<b>Operating income</b>	<b>281,848</b>	<b>909,021</b>	<b>204,833</b>	<b>1,021,419</b>
<b>Share in net profits/(losses) of entities valued at equity method</b>	<b>22</b>	<b>335</b>	<b>24</b>	<b>(1,342)</b>
<b>Profit before tax</b>	<b>281,870</b>	<b>909,356</b>	<b>204,857</b>	<b>1,020,077</b>
<b>Income tax expense</b>	<b>(53,459)</b>	<b>(167,046)</b>	<b>(39,670)</b>	<b>(199,116)</b>
<b>Net profit</b>	<b>228,411</b>	<b>742,310</b>	<b>165,187</b>	<b>820,961</b>
Including:				
Net profit attributable to Bank's shareholders		742,310		820,961
Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Earnings per share (in PLN)		5.68		6.28
Diluted net earnings per share (in PLN)		5.68		6.28

## Condensed consolidated statement of comprehensive income

	Third quarter period from 01.07.14 to 30.09.14	Third quarter accruals period from 01.01.14 to 30.09.14	Third quarter period from 01.07.13 to 30.09.13	Third quarter accruals period from 01.01.13 to 30.09.13
<i>PLN '000</i>				
<b>Net profit</b>	<b>228,411</b>	<b>742,310</b>	<b>165,187</b>	<b>820,961</b>
<b>Other comprehensive income, that might be subsequently reclassified to profit or loss:</b>				
Changes in value of available-for-sale financial assets	54,542	100,469	(40,272)	(326,343)
Currency translation differences	108	210	(773)	928
<b>Other comprehensive income net of tax</b>	<b>54,650</b>	<b>100,679</b>	<b>(41,045)</b>	<b>(325,415)</b>
<b>Total comprehensive income</b>	<b>283,061</b>	<b>842,989</b>	<b>124,142</b>	<b>495,546</b>
Including:				
Comprehensive income attributable to Bank's shareholders		842,989		495,546

## Condensed consolidated statement of financial position

<i>PLN '000</i>	State as at	30.09.2014	31.12.2013
<b>ASSETS</b>			
Cash and balances with the Central Bank		673,319	778,464
Amounts due from banks		2,642,367	3,539,927
Financial assets held-for-trading		10,765,957	5,751,829
Debt securities available-for-sale		15,793,179	17,616,041
Equity investments valued at equity method		8,072	7,814
Equity investments available for sale		12,588	15,280
Amounts due from customers		17,651,208	15,231,327
Tangible fixed assets		362,371	384,581
Intangible assets		1,395,256	1,417,363
Current income tax receivables		2,107	80,854
Deferred income tax asset		178,865	203,132
Other assets		776,666	359,039
Non-current assets held-for-sale		13,544	12,738
<b>Total assets</b>		<b>50,275,499</b>	<b>45,398,389</b>
<b>LIABILITIES</b>			
Amounts due to banks		8,790,274	6,378,436
Financial liabilities held-for-trading		6,402,914	4,196,896
Hedging derivatives		-	24,710
Amounts due to customers		26,443,895	26,568,765
Provisions		49,173	89,284
Current income tax liabilities		18,747	84
Other liabilities		1,354,841	832,950
<b>Total liabilities</b>		<b>43,059,844</b>	<b>38,091,125</b>
<b>EQUITY</b>			
Ordinary shares		522,638	522,638
Share premium		3,000,298	2,997,759
Revaluation reserve		57,506	(42,963)
Other reserves		2,898,787	2,859,388
Retained earnings		736,426	970,442
<b>Total equity</b>		<b>7,215,655</b>	<b>7,307,264</b>
<b>Total liabilities and equity</b>		<b>50,275,499</b>	<b>45,398,389</b>

### Condensed consolidated statement of changes in equity

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
<b>Balance as at 1 January 2014</b>	<b>522,638</b>	<b>2,997,759</b>	<b>(42,963)</b>	<b>2,859,388</b>	<b>970,442</b>	-	<b>7,307,264</b>
Total comprehensive income, including:	-	-	100,469	210	742,310	-	842,989
Net profit	-	-	-	-	742,310	-	742,310
Currency translation differences from the foreign operations' conversion	-	-	-	210	-	-	210
Net valuation of available-for-sale financial assets	-	-	100,469	-	-	-	100,469
Dividends paid	-	-	-	-	(934,598)	-	(934,598)
Transfer to capital	-	2,539	-	39,189	(41,728)	-	-
<b>Balance as at 30 September 2014</b>	<b>522,638</b>	<b>3,000,298</b>	<b>57,506</b>	<b>2,898,787</b>	<b>736,426</b>	-	<b>7,215,655</b>

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
<b>Balance as at 1 January 2013</b>	<b>522,638</b>	<b>3,011,380</b>	<b>257,791</b>	<b>2,637,066</b>	<b>962,540</b>	-	<b>7,391,415</b>
Total comprehensive income, including:	-	-	(326,343)	928	820,961	-	495,546
Net profit	-	-	-	-	820,961	-	820,961
Currency translation differences from the foreign operations' conversion	-	-	-	928	-	-	928
Net valuation of available-for-sale financial assets	-	-	(326,343)	-	-	-	(326,343)
Dividends paid	-	-	-	-	(756,519)	-	(756,519)
Transfer to capital	-	(13,621)	-	221,804	(208,183)	-	-
<b>Balance as at 30 September 2013</b>	<b>522,638</b>	<b>2,997,759</b>	<b>(68,552)</b>	<b>2,859,798</b>	<b>818,799</b>	-	<b>7,130,442</b>

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

## Condensed consolidated statement of cash flows

<i>PLN '000</i>	Third quarter accruals period from 01.01.14 to 30.09.14	Third quarter accruals period from 01.01.13 to 30.09.13
<b>Cash at the beginning of the reporting period</b>	<b>1,120,162</b>	<b>1,544,322</b>
Cash flows from operating activities	844,674	1,943,972
Cash flows from investing activities	(12,656)	(58,433)
Cash flows from financing activities	(941,674)	(727,137)
<b>Cash at the end of the reporting period</b>	<b>1,010,506</b>	<b>2,702,724</b>
<b>Increase/(decrease) in net cash</b>	<b>(109,656)</b>	<b>1,158,402</b>

## 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 Bank") Head Office is located in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was established on the strength of Notarial Deed of 13 April 1870 and was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000001538 and was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

The Bank and its subsidiaries are expected to continue the business activity for an unspecified period of time.

Share equity of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with nominal value of PLN 4.00 per share. The Bank is a listed company on the Warsaw Stock Exchange.

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

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

This interim consolidated financial statements present financial data of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), that is composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent company and its subsidiaries entities.

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.09.2014	31.12.2013
<b>Entities fully consolidated</b>			
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
<b>Entities valued at equity method</b>			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

In the third 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. These financial statements 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 the 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, No. 133) the Bank is obliged to publish its financial results for the 9 month period ended 30 September 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 third 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.

Since 1 January 2014, the following IFRSs were implemented: IFRS 10 – Consolidated financial statements; IFRS 11- Joint arrangements; IFRS 12 -‘Disclosure of interests in other entities; revised IFRS 27 - ‘Separate financial statement; IFRS 28 - ‘Investments in associates and joint ventures; IFRIC 21 and revisions of IASs 32, 36, 39. New standards had no significant influence on Group’s financial statement in period of their first use.

IFRIC 21 – Levies, has been implemented to use in European Union for year periods starting on 17 June 2014 or after this date. It is not expected to have significant influence on annual Group’s financial statement. However, it might have influence on interim Group’s financial statements.

The preparation of condensed interim consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires from the Management to prepare certain estimates and adopt 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 9 month period ended 30 September 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 30 September 2014 and from 1 July 2014 to 30 September 2014, and for consolidated statement of financial position as at 30 September 2014. Comparative financial data are presented for the period from 1 January 2013 to 30 September 2013 and from 1 July 2013 to 30 September 2013, and for the consolidated statement of financial position as at 31 December 2013.

The financial statements are presented in PLN (currency of presentation), rounded to the nearest thousand.

## 4 Macroeconomic Trends and Money, Forex & Stock Markets

### 1. Macroeconomic trends and Money & Forex Markets

The monthly macroeconomic data point towards an economic slowdown in the third quarter of 2014 to below 3% YoY from 3.3% YoY recorded for the second quarter and 3.4% YoY for the first quarter. This is reaffirmed by the manufacturing PMI downturn to below the 50-point mark denoting slowdown in activity, and the manufacturing data. To a large extent this is due to a deteriorated foreign demand resulting from a sharp downturn in manufacturing activity and economic slowdown faced by Poland’s main business partners including both its eastern neighbors affected by the Ukrainian conflict and the

euro zone states strangled by the UE and Russian sanctions. The slowdown is also reflected by slower export growth in the period from July to August 2014 of 0.3% YoY versus 5.2% YoY in the second quarter and 9.2% YoY in the first quarter with further import growth slowdown to 2% YoY from 8.2% YoY recorded for the second quarter. After over 2-year downturn, the current account deficit grew in the period July to August 2014 to 1.4% of GDP from 1.1% of GDP in the second quarter and 1.3% recorded at the end of 2013. The falling trade turnover coincided with slower manufacturing activity in the third quarter at 1.5% YoY versus 3.8% YoY in the second quarter of 2014 and 5% YoY in the first quarter of 2014. The building industry output was also showing a further slump to 0.4% YoY in the period from July to September 2014 from 10.1% YoY in the second quarter and 9.3% YoY in the first quarter.

The economic slowdown impacted also on retail sales growth that was 1.9% during the period from July to August 2014 versus 4.5% YoY in the second quarter and 5% YoY in the first quarter. With falling inflation, the real sales growth also reported a slump but to a lesser extent, i.e. to 3% YoY in the period from July to August 2014 versus 5% in the first and the second quarters. However, the consumer growth is projected to be supported by labor market that continues to perform well despite slower manufacturing and building industries' activity. The stable labor demand is reflected by a slightly accelerated employment growth rate in the third quarter of 2014 YoY to 0.8% YoY versus 0.7% YoY recorded for the previous quarter. At the same time, as companies do not feel particularly hard-pressed to offer higher wages, the wage growth in this sector slightly slowed down to 3.8% YoY from 4.1% YoY in the first and the second quarters of 2014. The unemployment rate dropped to 11.7% at the end of August 2014 from 12% reported at the end of June and 13.5% reported at the end of the first quarter. After eliminating the seasonal work increase, the unemployment rate settled at a record low since the end of 2010. The lending market that is projected to continue to grow was driving the consumption growth. The household debt was growing at a faster pace in the third quarter of 2014 and reached 5.3% YoY versus 4.6% YoY reported for the second quarter, with the consumer loans considerably stepping up.

In the period from July to September 2014, an average inflation fell to -0.3% YoY from 0.3% YoY in the second quarter and 0.6% in a year-ago period. The consumer price index was lower than expected mainly due to food prices that reflected low prices of world's agricultural products, good harvests in the country and embargo on some food imports imposed by Russia. The falling fuel prices also significantly impacted on the inflation drop.

In the third quarter of 2014, the Monetary Policy Council maintained the interest rates with a reference rate standing at 2.5%. However, as a response to the inflation clearly being below the target levels and the deteriorating economic growth outlook, the Monetary Policy Council in September this year decided to signal the easing cycle and in October cut the reference rate by 50 b.p. to 2% and the lombard rate by 100 b.p. to 3%.

In the third quarter of 2014, the zloty slightly depreciated against the euro and sharply lost to the dollar. The EUR/PLN rate soared to 4.179 at the end of September 2014 from 4.157 at the end of the second quarter with the peak level of ca. 4.232 during the quarter. The USD/PLN rate rose from 3.036 to 3.307. The depreciation of zloty was caused by fears of rapid interest rate increases in the U.S., which caused the dollar to appreciate against the zloty and the zloty to seriously depreciate against the dollar. The depreciation was also attributed to disappointing economic data in the third quarter of 2014 and concerns regarding world's economy growth as well as growing expectations of interest rate cuts.

The debt market yield curve continued to fall in the third quarter of 2014 primarily due to growing expectations of interest rate cuts to be announced by Poland's Central Bank and ECB along with ECB's asset bailout program, as well as due to the German government bond's yield falling down. The 2Y bond's yields slumped to 2.02% at the end of the third quarter of 2014 versus 2.50% recorded for the second quarter. The 10Y bond's yields stood at 3.07% at the end of the third quarter of 2014 compared to 3.51% recorded for the second quarter. At the end of September 2014, the 3M WIBOR rate dropped to 2.28% from 2.68% reported for the second quarter of 2014.

## **2. Capital market situation**

The Warsaw Stock Exchange ("WSE") prices reported a slight increase in the third quarter of 2014 driven mainly by easing conflict between Russian and Ukraine, bigger than expected number of individuals declaring to stay with the Open Pension Funds (which eases the risk of supply in the market), and the signals to further cut the interest rates.

In addition to the index WIG250 (the value of which fell by 2.3% versus the end of June), all other WSE main indices increased their prices. The WIG20 rose by 3.8% and the mWIG40 by 5.6% versus the end of the first half of 2014. The broad market index WIG was UP 5.7% versus the end of June 2014.

In the third quarter of 2014, the WIG-Telecommunications index was the performance leader of all sector subindices reporting an increase by 16.5%. The WIG-Media index was not far behind with a 12.9% rate of return. Development companies represented the worst investment in the reported period with their index losing 10.6%. Food companies were also under the big pressure as their index dropped 9.8% QoQ.

There were five newly listed companies on the WSE (including two moved from the New Connect market) over the last three months and the value of the IPOs of over PLN 656 million was slightly higher versus the one recorded for the first half of 2014 (PLN 455 million). At the end of September 2014, 463 stocks were traded on the Warsaw Stock Exchange (including 49 foreign companies) with the market share was over PLN 935 billion (up by 3.3% QoQ). The share of domestic companies in the aggregate capitalization on the WSE decreased from 69% at the end of the second quarter 2014 to 68%.

### Equity market indices as of 30 September 2014

Index	30 September 2014	30 June 2014	Change (%) QoQ	30 September 2013	Change (%) YoY
WIG	54,878.58	51,934.94	5.7%	50,301.85	9.1%
WIG-PL	56,388.27	53,233.97	5.9%	51,191.50	10.2%
WIG-div	1,234.20	1,144.52	7.8%	1,101.87	12.0%
WIG30	2,683.51	2,585.55	3.8%	2,547.69	5.3%
WIG50*	3,211.09	3,083.71	4.1%	-	-
WIG250*	1,214.24	1,242.93	(2.3%)	-	-
WIG20	2,500.29	2,408.81	3.8%	2,391.53	4.5%
mWIG40	3,639.74	3,446.01	5.6%	3,275.69	11.1%
<b>Sector sub-indices</b>					
WIG-Banks	8,694.03	8,125.78	7.0%	7,692.60	13.0%
WIG-Construction	2,225.92	2,072.14	7.4%	2,010.06	10.7%
WIG-Chemicals	11,760.68	12,084.55	(2.7%)	11,595.82	1.4%
WIG-Developers	1,341.09	1,500.68	(10.6%)	1,435.33	(6.6%)
WIG-Energy	4,643.91	4,353.38	6.7%	3,605.39	28.8%
WIG-IT	1,322.84	1,247.43	6.0%	1,344.48	(1.6%)
WIG-Media	4,169.71	3,693.72	12.9%	3,526.95	18.2%
WIG-Oil & Gas	3,209.07	3,280.15	(2.2%)	3,571.03	(10.1%)
WIG-Food	2,475.71	2,743.83	(9.8%)	3,494.36	(29.2%)
WIG-Basic materials	4,156.24	4,164.49	(0.2%)	4,345.14	(4.3%)
WIG-Telecom	1,203.56	1,033.16	16.5%	886.97	35.7%

Source: WSE, DMBH;

\* index calculated since 24 March 2014.

### Equity and bond trading value and derivatives trading volumes on WSE in the third quarter of 2014

	Q3 2014	Q2 2014	Change (%) QoQ	Q3 2013	Change (%) YoY
Shares (PLN million)*	127,204	109,553	16.1%	123,155	3.3%
Bonds (PLN million)	558	414	34.8%	625	(10.7%)
Futures (in thousand contracts)	3,503	4,191	(16.4%)	6,378	(45.1%)
Options (in thousand contracts)	274	164	67.1%	478	(42.7%)

\* excluding calls

Source: WSE, DMBH

In the reported period, the total WSE trading value went up by 16.1% QoQ, to slightly over PLN 127.2 billion. Trade in equities also reported a small improvement by 3.3% YoY.

Trade in bonds significantly increased versus the second quarter of 2014 ( by nearly 35% to PLN 558 million) but decreased by 10.7% YoY.

Futures also attracted less interest among investors. The volume of trade in these instruments was over 3.5 million, representing a decrease both QoQ and YoY by 16.4% and 45.1%, respectively.

The volume of trade in options in the period from July to September was 274,000, representing an increase by 110,000 versus the second quarter of 2014. However, this is still less compared to the year-ago period (decrease by 42.8%).

## 5 Situation in the banking sector

According to the data published by Central Bank of Poland, the volume of loans granted to companies increased by 4.5% YoY in the third quarter of 2014 and stood at nearly PLN 270 billion at the end of September, which shows an upturn trend that continues from the first quarter of 2014. In terms of lending period for loans granted to companies, the growth was reported for all lending periods with a particularly significant increase for loans granted for the period from one to five years (9.1% YoY). Loans with maturity of up to one year grew by 7.3% YoY and the loans with maturity of over 5 years by 4.7% YoY. Given the type of loans, the investment loans were the unquestionable leader with a growth of 9.9% YoY driven by better economic situation that encouraged companies to make the long-awaited investments. The other type of loans that was popular in the reported period was the consumer loans that went up by 3.9% YoY. The volume of mortgage loans stayed flat. The quality of the corporate loan portfolio measured by the NPL ratio improved year-on-year by 0.8 p.p. to 10.8% at the end of August 2014. This was due to better quality of loans granted to large companies (NPL went down by 0.8 p.p. to 8.6%) as well as to small and medium businesses (NPL down by 0.8 p.p. to 12.4%). The main drivers of corporate loans' improved quality were both better economic outlook and low interest rate levels.

Household loans went up at the end of September 2014 to over PLN 572 billion (+4.8% YoY) mainly due to an increase in mortgage loans (+4.4% YoY). Among the currency loans the most popular were the PLN loans that went up by 14.9% to PLN 192.1 billion. The foreign currency-denominated loan volume fell by 5.8% YoY to PLN 162.5 billion as a result of a gradual repayment of the foreign currency loan portfolio caused by restrictions on foreign currency lending. The consumer loans have been growing since the fourth quarter of 2013 (4.5% YoY) with the growth dynamics higher than in case of the mortgage loans. Increase was also reported for loans to sole traders (8.7% YoY). The quality of the household loans improved. The NPL ratio for this segment fell by 0.2 p.p. YoY to 7.0% with a simultaneous growth for mortgage loans by 0.2 p.p. YoY to 3.2% and a drop for consumer loans by 2.0 p.p. YoY to 14.0%, which has been the lowest level since the first quarter of 2010. This is due to low interest rates that make it easier for borrowers to pay off their debts, as well as by sale of NPL portfolio by banks. The higher volumes also impact on the loan portfolio quality measured by NPL.

Corporate deposits grew by 10.1% YoY to nearly PLN 210 billion at the end of the third quarter of 2014 driven by the current deposit growth (up by 11.8% YoY) and term deposits the volume of which went up by 8.0% YoY.

The household deposits soared by 8.0% YoY to PLN 565 billion. A trend shift has occurred for both deposit types over the last 12 months. While the current deposit dynamics shrank from 19.1% reported a year ago to 3.8% at the end of September 2014, the term deposit dynamics accelerated from -3.5% in the prior year period to 12.6% at the end of September 2014. This causes a gradual decrease of the current deposit to term deposit ration which currently stands at 50.0%, which represents a shift by -2.1 p.p. YoY.

After three quarters of 2014, the net profit of the banking sector increased by 10.4% YoY to a record level of over PLN 13.0 billion. This was mainly contributed to a revenue increase (+5.1% YoY) driven by a 14.0% surge in the net interest income. High growth of net interest income was caused by reduced interest rate costs (by -23.3% YoY) with falls of interest income simultaneously slowing down from -14.0% YoY in September 2013 to -3.4% YoY in September 2014 as a result of growing loan volumes. The banking sector revenue was negatively affected by lower net fee and commission income and other income by 1.8% YoY and 15.5% YoY, respectively. The growth of net impairment provisions by 6.9% YoY was also an important determinant of the revenue of the banking sector.

Despite reporting high returns, the banking sector is projected to face financial result pressure over the next quarters coming from the October reference rate cut by 50 bps and the risk of further cuts. The lombard rate cut by 100 bps may pose even greater threat from the banks' perspective since it cuts the loan maximum interest rate down from 16% to 12%. This will not only reduce the high-margin product income but may also constrain the supply of the products due to their inefficient profitability once the costs of all the risk associated with them have been included.

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

### 1. Consolidated statement of financial position

At the end of the third quarter of 2014, total assets amounted to PLN 50.3 billion compared to PLN 45.4 billion reported at the end of 2013, up by PLN 4.9 billion (or 10.7%). The change in total assets was due to the following factors:

- increase in net receivables from customers by PLN 2.4 billion, or 15.9%, reflecting primarily an increase in lending to the non-financial sector customers (up by PLN 1.9 billion, or 12.9%) and an increase in receivables from reverse repo transactions from the financial sector entities (up by PLN 0.6 billion). The receivables from the non-financial sector grew both on the corporate customers side (up by PLN 1.3 billion, or 14.4%; increase in all customer segments with the biggest growth in the Enterprises segment) and the retail clients side (up by PLN 0.5 billion, or 10.3%; due to a higher balance of both consumer loans and mortgage loans);
- increase in financial assets held-for-trading by PLN 5.0 billion, or 87.2%, primarily due to the nearly threefold growth of the Treasury bonds portfolio;
- decrease in the balance of debt securities available-for-sale by PLN 1.8 billion, or 10.3%, mainly due to the reduced position in the NBP monetary bills.

#### Net amounts due from customers

PLN '000	30.09.2014	31.12.2013	Change	
			PLN '000	%
<b>Amounts due from financial sector entities, including:</b>	<b>1,265,776</b>	<b>715,466</b>	<b>550,310</b>	<b>76.9%</b>
Receivables related to reverse repo transactions	657,817	100,789	557,028	552.7%
<b>Amounts due from non-financial sector entities, including:</b>	<b>16,385,432</b>	<b>14,515,861</b>	<b>1,869,571</b>	<b>12.9%</b>
Corporate clients*	10,559,965	9,232,581	1,327,384	14.4%
Individual clients, including:	5,825,467	5,283,280	542,187	10.3%
unsecured receivables	4,631,871	4,215,081	416,790	9.9%
mortgage loans	1,193,596	1,068,199	125,397	11.7%
<b>Total net receivables from customers</b>	<b>17,651,208</b>	<b>15,231,327</b>	<b>2,419,881</b>	<b>15.9%</b>

\*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 without recognized impairment/with recognized impairment

PLN '000	30.09.2014	31.12.2013	Change	
			PLN '000	%
Without recognized impairment, including:	17,491,824	14,983,311	2,508,513	16.7%
non-financial sector entities	16,225,942	14,267,713	1,958,229	13.7%
corporate clients*	10,494,974	9,093,770	1,401,204	15.4%
individual clients	5,730,968	5,173,943	557,025	10.8%
With recognized impairment, including:	987,531	1,135,085	(147,554)	(13.0%)
non-financial sector entities	968,535	1,116,089	(147,554)	(13.2%)
corporate clients*	377,083	470,945	(93,862)	(19.9%)
individual clients	591,452	645,144	(53,692)	(8.3%)

PLN '000	30.09.2014	31.12.2013	Change	
			PLN '000	%
Dues related to matured derivative transactions	92,875	96,964	(4,089)	(4.2%)
<b>Total gross receivables from customers, including:</b>	<b>18,572,230</b>	<b>16,215,360</b>	<b>2,356,870</b>	<b>14.5%</b>
non-financial sector entities	17,194,477	15,383,802	1,810,675	11.8%
corporate clients*	10,872,057	9,564,715	1,307,342	13.7%
individual clients	6,322,420	5,819,087	503,333	8.6%
<b>Impairment, including:</b>	<b>(921,022)</b>	<b>(984,033)</b>	<b>63,011</b>	<b>(6.4%)</b>
Dues related to matured derivative transactions	(81,323)	(81,556)	233	(0.3%)
<b>Total net receivables from customers</b>	<b>17,651,208</b>	<b>15,231,327</b>	<b>2,419,881</b>	<b>15.9%</b>
<b>Impairment coverage ratio with recognized impairment**</b>	<b>85.0%</b>	<b>79.5%</b>		
corporate clients*	85.8%	73.8%		
individual clients	84.0%	83.1%		
<b>Non-performing loans ratio (NPL)</b>	<b>5.3%</b>	<b>7.0%</b>		

\*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 (up by PLN 2.4 billion, or 37.8%) while liabilities towards customers remained stable. The customers deposits decreased slightly (i.e. down by PLN 0.4 billion, or 1.4%), 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, deposits of individual customers continued to grow (up by PLN 0.5 billion, or 6.7%), due to an increase in both current account deposits and term deposits.

Other liabilities towards customers also grew (up by PLN 0.2 billion, or 47.0%), which was due to a higher level of liabilities under repo contracts.

### Amounts due to customers

PLN '000	30.09.2014	31.12.2013	Change	
			PLN '000	%
<b>Current accounts, including:</b>	<b>16,076,394</b>	<b>17,303,756</b>	<b>(1,227,362)</b>	<b>(7.1%)</b>
financial sector entities	299,278	320,634	(21,356)	(6.7%)
non-financial sector entities, including:	15,777,116	16,983,122	(1,206,006)	(7.1%)
Corporate clients*, including:	9,670,208	11,051,215	(1,381,007)	(12.5%)
Budgetary units	1,978,499	3,347,446	(1,368,947)	(40.9%)
Individual clients	6,106,908	5,931,907	175,001	3.0%
<b>Time deposits, including:</b>	<b>9,656,121</b>	<b>8,780,957</b>	<b>875,164</b>	<b>10.0%</b>
financial sector entities	4,374,702	2,939,233	1,435,469	48.8%
non-financial sector entities, including:	5,281,419	5,841,724	(560,305)	(9.6%)
Corporate clients*, including:	4,021,231	4,866,448	(845,217)	(17.4%)
Budgetary units	587,603	216,815	370,788	171.0%
Individual customers	1,260,188	975,276	284,912	29.2%
<b>Total customers deposits</b>	<b>25,732,515</b>	<b>26,084,713</b>	<b>(352,198)</b>	<b>(1.4%)</b>
<b>Other amounts due to customers</b>	<b>711,380</b>	<b>484,052</b>	<b>227,328</b>	<b>47.0%</b>
<b>Total amounts due to customers</b>	<b>26,443,895</b>	<b>26,568,765</b>	<b>(124,870)</b>	<b>(0.5%)</b>

\* 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 third quarter of 2014, the Group delivered a consolidated net profit of PLN 228.4 million, up by PLN 63.2 million (or 38.3%) compared to the third quarter of 2013. At the same time, the revenues of the Group increased by PLN 58.6 million (or 11.3%) to PLN 577.3 million.

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

- net interest income of PLN 304.1 million versus PLN 306.2 million in the third quarter of 2013 – down by PLN 2.1 million, or 0.7%, stemming primarily from lower interest income from the debt securities portfolio (down by PLN 31.6 million, or 22.2%), which was to a large extent offset by an increase in net interest income from customer business, inter alia as a result of the increase in lending (increase in net customer receivables by 9.9% YoY, excluding receivables from reverse repo transactions);

### Net interest income

PLN '000	01.07 - 30.09.2014	01.07 - 30.09.2013	Change	
			PLN '000	%
<b>Interest and similar income from:</b>				
Balances with the Central Bank	6,788	6,001	787	13.1%
Amounts due from banks	17,782	8,354	9,428	112.9%
Amounts due from customers, in respect of:	250,365	245,180	5,185	2.1%
financial sector	5,078	9,699	(4,621)	(47.6%)
non-financial sector, including:	245,287	235,481	9,806	4.2%
credit cards	83,774	65,819	17,955	27.3%
Debt securities available-for-sale	89,724	120,207	(30,483)	(25.4%)
Debt securities held-for-trading	21,492	22,654	(1,162)	(5.1%)
	<b>386,151</b>	<b>402,396</b>	<b>(16,245)</b>	<b>(4.0%)</b>
<b>Interest expense and similar charges on:</b>				
Amounts due to banks	(8,296)	(11,634)	3,338	(28.7%)
Amounts due to financial sector entities	(21,574)	(30,921)	9,347	(30.2%)
Amounts due to non-financial sector entities	(51,286)	(52,781)	1,495	(2.8%)
Loans and advances received	(874)	(860)	(14)	1.6%
	<b>(82,030)</b>	<b>(96,196)</b>	<b>14,166</b>	<b>(14.7%)</b>
<b>Net interest income</b>	<b>304,121</b>	<b>306,200,</b>	<b>(2,079)</b>	<b>(0.7%)</b>

- net fee and commission income of PLN 144.4 million versus PLN 153.0 million in the third quarter of 2013 – the decline by PLN 8.6 million, or 5.6%, was mainly due to lower fee income from payment and credit cards as a result of the reduced interchange fee (to 0.5%) effective from July 1, 2014 partially offset by increased sales of installment products linked to credit cards and increased volumes of transactions made with payment cards. Moreover, the net fee and commission income from sale of investment and insurance products increased for another consecutive quarter. In the area of financial markets, net fee and commission income from brokerage activity decreased (as a result of the drop in turnover on the WSE), while net fee and commission income from custody services increased;

### Net fee and commission income

PLN '000	01.07 - 30.09.2014	01.01- 30.09.2013	Change	
			PLN '000	%
<b>Fee and commission income</b>				
Insurance and investment products distribution	37,564	34,350	3,214	9.4%
Payment and credit cards	45,115	59,433	(14,318)	(24.1%)

PLN '000	01.07 – 30.09.2014	01.01- 30.09.2013	Change	
			PLN '000	%
Payment orders	28,591	26,270	2,321	8.8%
Custody services	28,568	26,655	1,913	7.2%
Cash loans fees	822	1,275	(453)	(35.5%)
Brokerage activity	12,040	13,611	(1,571)	(11.5%)
Clients' cash on account management services	6,508	6,279	229	3.6%
Guarantees granted	3,750	3,769	(19)	(0.5%)
Financial liabilities granted	1,747	1,295	452	34.9%
Other	9,266	8,700	566	6.5%
	<b>173,971</b>	<b>181,637</b>	<b>(7,666)</b>	<b>(4.2%)</b>
<b>Fee and commission expense</b>				
Payment and credit cards	(15,066)	(13,647)	(1,419)	10.4%
Brokerage activity	(5,941)	(5,130)	(811)	15.8%
Fees paid to the National Depository for Securities (KDPW)	(5,152)	(5,386)	234	(4.3%)
Brokerage fees	(931)	(1,584)	653	(41.2%)
Other	(2,488)	(2,899)	411	(14.2%)
	<b>(29,578)</b>	<b>(28,646)</b>	<b>(932)</b>	<b>3.3%</b>
<b>Net fee and commission income</b>				
Insurance and investment products distribution	37,564	34,350	3,214	9.4%
Payment and credit cards	30,049	45,786	(15,737)	(34.4%)
Payment orders	28,591	26,270	2,321	8.8%
Custody services	28,568	26,655	1,913	7.2%
Cash loans fees	822	1,275	(453)	(35.5%)
Brokerage activity	6,099	8,481	(2,382)	(28.1%)
Clients' cash on account management services	6,508	6,279	229	3.6%
Guarantees granted	3,750	3,769	(19)	(0.5%)
Financial liabilities granted	1,747	1,295	452	34.9%
Fees paid to the National Depository for Securities (KDPW)	(5,152)	(5,386)	234	(4.3%)
Brokerage fees	(931)	(1,584)	653	(41.2%)
Other	6,778	5,801	977	16.8%
<b>Net fee and commission income</b>	<b>144,393</b>	<b>152,991</b>	<b>(8,598)</b>	<b>(5.6%)</b>

- net income from trade financial instruments and revaluation of PLN 65.9 million versus PLN 28.2 million in the third quarter of 2013, up by PLN 37.8 million, stemming primarily from higher income from interbank transactions and to a lesser extent from customer result;
- net gain on debt investment securities of PLN 57.7 million versus PLN 32.0 million in the third quarter of 2013 – up by PLN 25.7 million, which was due to realized gains in favorable conditions on the domestic debt market;
- operating expenses and overheads including depreciation expenses of PLN 303.8 million compared to PLN 312.9 million in the corresponding period of the previous year – down by PLN 9.1 million (or 2.9%) 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 telecommunication fees and hardware purchase costs. At the same time, marketing expenses increased due to the further roll-out of the Smart Banking Ecosystem;

#### General administrative expenses and depreciation expense

PLN '000	01.07 - 30.09.2014	01.01- 30.09.2013	Change	
			PLN '000	%
<b>Staff expenses</b>	<b>(143,561)</b>	<b>(145,852)</b>	<b>2,291</b>	<b>(1.6%)</b>
Remuneration costs	(98,465)	(103,654)	5,189	(5.0%)



PLN '000	01.07 - 30.09.2014	01.07- 30.09.2013	Change	
			PLN '000	%
Bonuses and rewards	(31,031)	(27,177)	(3,854)	14.2%
Social security costs	(14,065)	(15,021)	956	(6.4%)
<b>Administrative expenses</b>	<b>(142,596)</b>	<b>(149,912)</b>	<b>7,316</b>	<b>(4.9%)</b>
Telecommunication fees and hardware purchase costs	(36,702)	(49,151)	12,449	(25.3%)
Costs of external services, including advisory, audit, consulting services	(17,078)	(18,228)	1,150	(6.3%)
Building maintenance and rent costs	(26,681)	(23,594)	(3,087)	13.1%
Marketing costs	(6,726)	(4,129)	(2,597)	62.9%
Costs of cash management services, costs of cleaning services and other transaction costs	(12,671)	(12,348)	(323)	2.6%
Costs of external services related to distribution of banking products	(12,725)	(12,654)	(71)	0.6%
Postal services, office supplies and printmaking costs	(3,389)	(4,875)	1,486	(30.5%)
Training and education costs	(738)	(1,101)	363	(33.0%)
Banking supervision costs	1,637	3,279	(1,642)	(50.1%)
Other expenses	(27,523)	(27,111)	(412)	1.5%
<b>Depreciation and amortization</b>	<b>(17,626)</b>	<b>(17,109)</b>	<b>(517)</b>	<b>3.0%</b>
<b>General administrative expenses and depreciation expense, total</b>	<b>(303,783)</b>	<b>(312,873)</b>	<b>9,090</b>	<b>(2.9%)</b>

- result on impairment write-offs of financial assets and provisions for granted financial and guarantee liabilities of PLN +7.8 million versus net impairment losses in the third quarter of 2013 of PLN -1.6 million. The improvement by PLN 9.3 million was primarily a result of the Bank's proactive policy towards exposures with an increased risk in the MME segment. In the Consumer Banking Sector the quality of the portfolio remained stable and the value of net impairment losses was similar to the level reported in the third quarter of 2013.

#### Net impairment due to financial assets and provisions for granted financial liabilities and guarantees

PLN '000	01.07 – 30.09.2014	01.07 – 30.09.2013	Change	
			PLN '000	%
<b>Impairment allowances for financial assets</b>				
Amounts due from banks	(568)	(293)	(275)	93.9%
Amounts due from customers	(55,287)	(62,955)	7,668	(12.2%)
Receivables from matured derivative transactions	(10)	(42)	32	(76.8%)
Other	(833)	(2,473)	1,640	(66.3%)
	<b>(56,698)</b>	<b>(65,763)</b>	<b>9,065</b>	<b>(13.8%)</b>
<b>Reversals of impairment allowances for financial assets</b>				
Amounts due from banks	792	303	489	161.4%
Amounts due from customers	61,529	63,934	(2,405)	(3.8%)
Receivables from matured derivative transactions	6	558	(552)	(99.0%)
Recoveries from sold debts	186	249	(63)	(25.2%)
	<b>62,513</b>	<b>65,044</b>	<b>(2,531)</b>	<b>(3.9%)</b>
<b>Net impairment allowances financial assets</b>	<b>5,815</b>	<b>(719)</b>	<b>6,534</b>	
Created provisions for granted financial and guarantee commitments	(6,279)	(8,055)	1,776	(22.0%)
Releases of provisions for granted financial and guarantee commitments	8,232	7,210	1,022	14.2%
<b>Net impairment allowances provisions for granted financial and guarantee commitments</b>	<b>1,953</b>	<b>(845)</b>	<b>2,798</b>	<b>-</b>
<b>Net impairment allowances financial assets and provisions for granted financial liabilities and guarantees</b>	<b>7,768</b>	<b>(1,564)</b>	<b>9,332</b>	<b>-</b>

### 3. Ratios

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

Financial ratios	Q3 2014	Q3 2013
ROE *	14.0%	16.5%
ROA**	1.9%	2.4%
Cost/Income	53%	60%
Loans to non-financial sector/Deposits from non-financial sector	78%	72%
Loans to non-financial sector/Total assets	33%	31%
Net interest income/Revenue	53%	59%
Net fee and commission income/Revenue	25%	29%

\*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 –		Change	
	30.09.2014	30.09.2013	FTEs	%
Average employment in the third quarter	4,368	4,783	(415)	(8.7%)
Average employment in the period	4,405	4,881	(476)	(9.8%)
Employment at the end of quarter	4,285	4,704	(419)	(8.9%)

\*does not include employees on parental and unpaid leave

In the third 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 of 2013, the Bank started the process of employment restructuring in connection with the transformation of the retail banking distribution model and further improving of the Bank's operational efficiency

As of September 30, 2014, capital adequacy ratio of the Group amounted to 16.4% and was lower by 1.1 percentage point comparing to the end of 2013 due to increase of the total capital requirement by 6.6%. The latter was driven by growth of credit exposure and change of methodology to Basel III. Group's own funds stayed on unchanged level.

### Capital adequacy ratio\*

PLN '000	30.09.2014	31.12.2013
<b>I Tier I capital, after deductions</b>	<b>4,914,680</b>	<b>4,908,707</b>
<b>II Total capital requirements, including:</b>	<b>2,394,273</b>	<b>2,246,769</b>
credit risk capital requirements	1,728,999	1,535,628
counterparty risk capital requirements	78,377	80,127
Credit valuation adjustment capital requirements	50,327	-
capital requirements for excess of exposures' concentration limit and large exposures' limit	55,604	95,500
total market risk capital requirements	118,930	156,778
operational risk capital requirements	350,484	363,336
other capital requirements	11,552	15,400
<b>Tier I capital ratio (I/(II*12,5))</b>	<b>16.4%</b>	<b>17.5%</b>

\*Capital Adequacy Ratio was calculated according to the rules applicable in the given reporting period, respectively as at 30 September 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 Segment 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 the 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 solely from maturity and currency structure of assets and liabilities. The basis for assessment of the segment performance is gross profit or loss. The basis for segments activity evaluation is gross profit or loss.

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

### Corporate Banking

Within the Corporate Banking segment, the Group offers products and provides services to commercial entities, municipalities 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 finance, leasing, brokerage and custody services in respect of securities. It also offers treasury products on financial and commodity markets. In addition, the segment offers the investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings. The activities also comprise proprietary transactions on the equity, debt and derivative instruments' markets.

### Consumer Banking

Within the Consumer Banking segment the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. Besides managing bank accounts and providing extensive credit and deposit products, the Group offers cash loans, mortgage loans and credit cards. It also provides asset management services and acts as an agent in investment and insurance products sale.

### Consolidated income statement of the Group by business segment

PLN '000	For the period			01.01. – 30.09.2014			01.01. – 30.09.2013		
	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
Net interest income	400,322	499,003	899,325	444,944	498,885	943,829			
Internal interest income, including:	(38,691)	38,691	-	(30,087)	30,087	-			
Internal income	-	38,691	38,691	-	30,087	30,087			
Internal expenses	(38,691)	-	(38,691)	(30,087)	-	(30,087)			
Net fee and commission income	208,345	260,175	468,520	223,974	257,777	481,751			
Dividend income	2,214	3,568	5,782	1,415	2,931	4,346			
Net income on financial instruments and revaluation	273,316	23,945	297,261	240,807	25,199	266,006			
Net gain on debt investment securities	162,997	-	162,997	285,335	-	285,335			
Net gain on equity investment instruments	3,526	-	3,526	1,844	-	1,844			
Net loss on hedge accounting	(379)	-	(379)	-	-	-			
Net other operating income	29,557	(17,682)	11,875	24,667	(15,714)	8,953			
General administrative expenses	(384,661)	(508,078)	(892,739)	(420,155)	(524,502)	(944,657)			
Depreciation and amortization	(17,894)	(35,916)	(53,810)	(19,420)	(24,484)	(43,904)			
Profit on sale of other assets	891	1	892	682	70	752			

For the period	01.01. – 30.09.2014			01.01. – 30.09.2013		
	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
<i>PLN '000</i>						
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	10,187	(4,416)	5,771	(17,815)	34,979	17,164
<b>Operating income</b>	<b>688,421</b>	<b>220,600</b>	<b>909,021</b>	<b>766,278</b>	<b>255,141</b>	<b>1,021,419</b>
Share in net profits/(losses) of entities valued at equity method	335	-	335	(1,342)	-	(1,342)
<b>Profit before tax</b>	<b>688,756</b>	<b>220,600</b>	<b>909,356</b>	<b>764,936</b>	<b>255,141</b>	<b>1,020,077</b>
Income tax expense			(167,046)			(199,116)
<b>Net profit</b>			<b>742,310</b>			<b>820,961</b>

State as at	30.09.2014			31.12.2013		
<i>PLN '000</i>	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
<b>Total assets, including:</b>	<b>44,177,420</b>	<b>6,098,079</b>	<b>50,275,499</b>	<b>39,816,056</b>	<b>5,582,333</b>	<b>45,398,389</b>
Equity investments valued at equity method	8,072	-	8,072	7,814	-	7,814
Non-current assets held-for-sale	-	13,544	13,544	-	12,738	12,738
<b>Total liabilities and shareholders' equity, including:</b>	<b>41,123,952</b>	<b>9,151,547</b>	<b>50,275,499</b>	<b>36,070,064</b>	<b>9,328,325</b>	<b>45,398,389</b>
Liabilities	35,500,574	7,559,270	43,059,844	30,416,864	7,674,261	38,091,125

## 8 Activities of the Group

### 1. Corporate Banking

#### 1.1. Summary of segment results

<i>PLN '000</i>	Q3 2014	Q3 2013	Change	
			PLN '000	%
Net interest income	131,662	146,736	(15,074)	(10.3%)
Net fee and commission income	66,326	65,934	392	0.6%
Dividend income	100	121	(21)	(17.4%)
Net income on trading financial instruments and revaluation	57,396	19,442	37,954	195.2%
Net gain on debt investment securities	57,709	32,037	25,672	80.1%
Net gain on equity investment instruments	671	-	671	-
Net loss on hedge accounting	330	-	330	-
Net other operating income	9,644	4,918	4,726	96.1%
<b>Total income</b>	<b>323,838</b>	<b>269,188</b>	<b>54,650</b>	<b>20.3%</b>
General administrative expenses and depreciation	(124,983)	(135,363)	10,380	(7.7%)
Profit on sale of other assets	595	590	5	0.8%
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	12,154	3,040	9,114	299.8%
Share in net profits/(losses) of entities valued at equity method	22	24	(2)	(8.3%)
<b>Profit before tax</b>	<b>211,626</b>	<b>137,479</b>	<b>74,147</b>	<b>53.9%</b>
<b>Cost / Income</b>	<b>39%</b>	<b>50%</b>		

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

- a decrease in net interest income reflecting lower net interest income from debt securities (down by PLN 31.6 million, or 22.2%), which was partially offset by an increase in net interest income from customer business, inter alia as a result of higher credit volumes;

- a slight increase in net fee and commission income, mainly as a result of higher fee income from custody services (up by PLN 1.9 million, or 7.2%). At the same time, net fee and commission income from brokerage activity decreased (down by PLN 2.4 million, or 28.1%) due to the lower turnover on the equity market on the WSE;
- increase in net income from trade financial instruments and revaluation stemming primarily from higher income from interbank transactions, as well as higher customer result;
- increase in net gain on debt investment securities due to realized gains in favorable conditions on the domestic debt market in the third quarter of 2014;
- decline in operating expenses resulting primarily from lower technology costs;
- positive result on impairment write-offs of financial assets at the level of PLN 12.1 million versus PLN 3.0 million in the corresponding period of 2013, which was primarily a result of the Bank's proactive policy towards exposures with an increased risk in the MME 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 third quarter of 2014, the number of corporate clients (including Strategic, Global and Local Commercial Banking clients) amounted to 7.4 thousand, down by 3% compared to the third quarter of 2013, when the number of clients amounted to 7.6 thousand. Under the Local Commercial Banking (small and medium companies, large enterprises and public sector) the Bank served 5.2 thousand clients at the end of the third quarter of 2014 (down by 6% compared to 5.5 thousand clients served at the end of the third 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

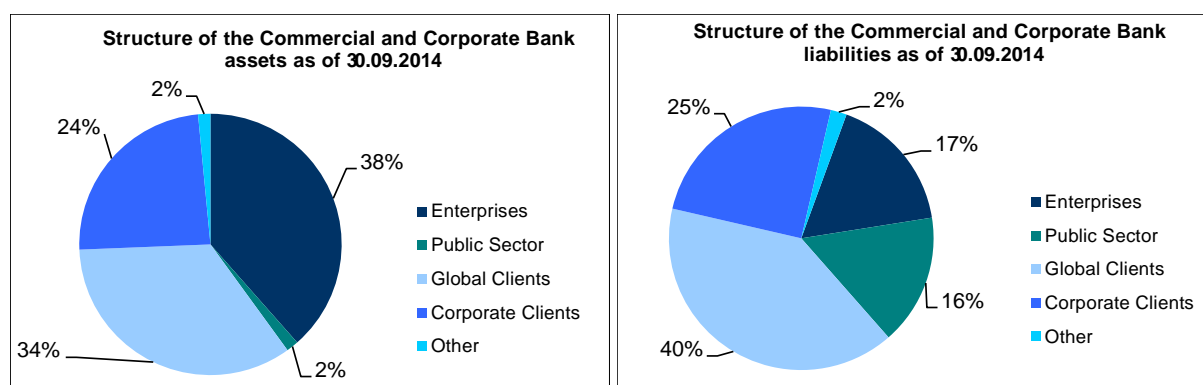
	30.09.2014	30.06.2014	30.09.2013	Change		Change	
				(1)/(2)	(1)/(3)		
<i>PLN million</i>	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises*, including:	4,398	4,111	3,461	287	7%	937	27%
SMEs	1,891	1,820	1,587	71	4%	304	19%
MMEs	2,507	2,291	1,874	216	9%	633	34%
Public Sector	172	185	140	(13)	(7%)	32	23%
Global Clients	3,924	3,715	3,935	209	6%	(11)	(0%)
Corporate Clients	2,755	2,866	2,622	(111)	(4%)	133	5%
Other**	173	186	212	(13)	(7%)	(39)	(18%)
<b>Total Corporate and Commercial Bank</b>	<b>11,422</b>	<b>11,063</b>	<b>10,370</b>	<b>359</b>	<b>3%</b>	<b>1,052</b>	<b>10%</b>

## Liabilities

PLN million	30.09.2014 (1)	30.06.2014 (2)	30.09.2013 (3)	Change (1)/(2)		Change (1)/(3)	
				PLN million	%	PLN million	%
Enterprises*, including:	3,079	2,906	3,126	173	6%	(47)	(2%)
SMEs	2,179	2,110	2,203	69	3%	(24)	(1%)
MMEs	900	796	923	104	13%	(23)	(2%)
Public Sector	2,919	2,925	2,598	(6)	(0%)	321	12%
Global Clients	7,289	7,316	6,935	(27)	(0%)	354	5%
Corporate Clients	4,542	4,863	4,263	(321)	(7%)	279	7%
Other**	355	405	67	(50)	(12%)	288	430%
<b>Total Corporate and Commercial Bank</b>	<b>18,184</b>	<b>18,415</b>	<b>16,989</b>	<b>(231)</b>	<b>(1%)</b>	<b>1 195</b>	<b>7%</b>

\* 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 business highlights of the Corporate and Commercial Banking in the third quarter of 2014:

- In the third quarter of 2014, the Bank closed i.a. the following transactions with Strategic and Global Clients:
  - Citi Handlowy together with the international banking consortium entered into a revolving loan agreement for the amount of USD 2.5 billion with the mining sector company in July 2014. The agreement was signed for 5 years. The Bank acted as the Global Coordinator and Main Arranger. The Bank's share in the financing was USD 200 million;
  - Bank together with an energy sector company entered into a new program of bond issue for the amount of PLN 7 billion, guaranteed by the international banking consortium with the Bank's commitment to 10% of the bond amount;
  - Bank issued 2-year bonds for a financial institution in the amount of PLN 82 million as part of the Bond Issue Program held for the institution;
  - Bank acquired a new client – Poland and Central and Eastern Europe's e-commerce leader.
- In the third quarter of 2014 the Bank completed a number of finance transactions with the Commercial Bank clients, such as among others: long-term loan in the amount of EUR 10.9 million, payment loan of PLN 26.7 million and overdraft in the amount of PLN 17.7 million for organic chemical manufacturer; long-term amortizing loan of PLN 60 million, overdraft in the amount of PLN 20 million and pre-settlement exposure (PSE) in the amount of 9 million for animal feed manufacturing company; secured overdraft of PLN 70 million for television broadcaster; overdraft in the amount of PLN 35 million and trade loan (seller financing) in the amount of PLN 32 for electronic installation manufacturer; revolving loan of PLN 7.7 million and EUR 4.8 million and overdraft in the amount of PLN 5 million for metal constructions manufacturing company; long-term loan in the amount of PLN 29.2 million for metal constructions manufacturing company;

overdraft in the amount of PLN 27.5 million for the IT distribution company; payment loan of PLN 23.2 million for poultry farming company; overdraft in the amount of PLN 20 million for university; payment loan of PLN 20 million for meat processing and maintenance company; payment loan of PLN 20 million for fuel wholesale company;

- Client acquisition:
  - In the third quarter of 2014, the Bank acquired 77 new Commercial Bank clients, including 9 Large Enterprises, 63 Small and Medium Enterprises and 5 Public Sector companies. One of the new clients has been an organic chemicals manufacturer acquired through financing in the amount of PLN 90 million. The Bank acted as an agent in the banking consortium that was the first consortium within the Commercial Bank Division;
  - Bank acquired 6 new customer relationships with Global Clients.

### Treasury Activity and Business Highlights

- According to the data at the end of September 2014, the Bank continued its strong foreign currency exchange performance on the corporate market. After three quarters of 2014, the FX transaction volumes went up 7% YoY. However, due to seasonality of this activity, in the third quarter itself, the FX transaction volumes went down 8% versus the previous quarter;
- CitiFX Pulse is a foreign currency exchange online platform thanks to which clients can make FX transactions 24/7. In the reported period, the CitiFX Pulse platform continued to attract clients – 74% of all FX transactions is made using this platform. It is a very innovative and functional tool that provides clients with access to market information before a transaction is made, helps to analyse foreign currency exposure after it is converted and offers a wide selection of other useful features such as the account balance preview introduced in the third quarter of 2014;
- The Treasury Division participated in two sizeable transactions realized in the third quarter of 2014 (described on page 22 of this report), i.e.: a revolving loan for the amount USD 2.5 billion for the mining sector company and a program of bond issue for the amount of PLN 7 billion for the energy sector company;
- According to Fitch Ratings' "Rating&Market" report, the Bank held an 18% market share as an arranger of bond and certificates of deposit issues for banks at the end of September 2014, which ranks it second in the market.
- In the third quarter of 2014 the Bank continued its momentum as a leader of the overall ranking in a competition held by the Ministry of Finance to select the Treasury Securities Dealer for 2014.

### Transaction Services

The Bank is a leading provider of transaction banking services in Poland that include the following:

- Cash management products: deposits and current accounts, liquidity management products, Micro-deposits and e-banking;
- Cards;
- Payment and receivable services: Direct Debit, SpeedCollect;
- Cash products;
- EU advisory;
- Trade finance products.

One of the strategic Citi Handlowy growth directions is to establish closer relations with Poland's market leading companies. The Bank's world-class customer service standards have been reaffirmed by **taking the first place in the prestigious Euromoney Cash Management Survey 2014** where Citi Handlowy Cash Management services were quoted as the market benchmark. This can be considered a big success as the survey respondents were the clients who voted for their most valued bank.

Other Transaction Services highlights and business achievements in the third quarter of 2014 are:

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- **Electronic Banking**

In the third quarter of 2014 the Bank launched a number of enhancements and new features to its e-banking offer for corporate clients:

- The Bank further enhanced its CitiDirect mobile banking by introducing new look and features to its tablet application (e.g. extended account balance information browser and new transaction confirmations) as well as extending the list of enabled devices and operational system (Android and Windows Store).

Other electronic banking highlights:

- The number of active system users remains at the high level of 4,500 at the end of the third quarter of 2014;
- The number of corporate clients with mobile access to CitiDirect was 3,200 at the end of the third quarter of 2014 and the total number of mobile was 86,000 in the third quarter of 2014.

- **Cards**

In terms of Business Cards the Bank reported a substantial increase of the number and value of non-cash transactions versus the prior year period by 10% and 12%, respectively. The growth was driven by a consistently implemented strategy to acquire high transaction volumes and activate the existing client portfolio.

Irrespective of the above actions, the Bank implemented a greater pricing discipline, the result of which was maintaining the same average card income flat at the end of the third quarter of 2014 versus the prior year period despite a significant interchange fee reduction for domestic transactions.

- **Direct Debit**

The Bank offers comprehensive debit processing. The direct debit market is a segment of such services where the Bank takes a leading position. In the third quarter of 2014 the Bank processed a comparable number of transactions versus the year ago period, processing the biggest number of transactions as the creditor's bank in Poland and keeping the 40% market share.

- **Domestic Transfers**

The Bank offers the full domestic transfer services, including the Elixir session payments, Sorbnet and the Express Elixir instant funds transfers. The number of transfers made by clients increased in the third quarter of 2014 by 4.9% YoY.

- **EU Advisory**

In the third quarter of 2014, the EU Office was performing the tasks resulting from the agreement signed by the Bank with Kreditanstalt für Wiederaufbau for distribution of funds under energy efficiency programs among local government units and small and medium-sized enterprises. In the third quarter of 2014, the Bank signed the energy credit contracts in an aggregate amount of PLN 23.7 million.

- **Trade Finance Products**

In the third quarter of 2014, all the receivables discounting and supplier financing transactions were successfully migrated into a new Citi Trade Portal. Consequently, all documentary products including export and import letters of credit, bank guarantees and collections are supported by one of the most advanced electronic platforms.

The most important Trade Finance transactions in the third quarter of 2014 include:

- activating two important limits for the import letters of credit for the total amount of PLN 79 million;
- participating in the receivables discount transactions in the fuel sector for the total amount of PLN 422 million;
- winning a tender for an annual consortium trade loan for one of the oil refineries for the amount of PLN 165 million;



- growing the local and regional supplier finance programs – adding other 11 suppliers and enabling them short-term receivables discounting;
- winning a tender for the receivables discounting for the amount of PLN 64 million for a plant protection products manufacturing company.

### **Custody Services**

The Bank is a leader in Poland's custody services market. It offers custody services both to foreign institutional investors and domestic financial entities, including in particular pension funds, mutual and unit-linked insurance funds.

In the third quarter of 2014, Citi Handlowy, simultaneously to changes implemented by KDPW S.A., provided its clients with a possibility of partial transaction settlement in securities as well as the netting option for transactions settled for the WSE remote members.

As of September 30, 2014, the Bank maintained 10,000 securities accounts.

At the same time, the Bank was the custodian for five open pension funds: Amplico OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE, Nordea OFE; five voluntary pension funds: MetLife Amplico DFE, Nordea DFE, ING DFE, DFE Pekao and Generali DFE; and two employee pension funds: Pracowniczy Fundusz Emerytalny PZU "Słoneczna jesień" and Pracowniczy Fundusz Emerytalny Orange Polska.

The Bank was also a custodian for mutual funds managed by the following Investment Fund Companies: BZ WBK TFI S.A., PKO TFI S.A., Pioneer Pekao TFI S.A., Legg Mason TFI S.A. and Aviva Investors Poland TFI S.A.

### **Brokerage services**

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

In the third quarter of 2014, DMBH acted as a broker in session transactions representing 12.6% of the secondary market equity trading volume and once again ranked first in the market. The value of session transactions executed via DMBH in the equity market on the Warsaw Stock Exchange (WSE) was PLN 12.8 billion, representing a decrease by 8% YoY resulting from smaller WSE equity trading volume.

In the third quarter of 2014, the activity of individual clients using the new CitiFXPro transactional platform continued to grow. The platform allows users to buy and sell shares and ETF units traded on the biggest foreign exchanges as well as OTC FX instruments using financial leverage. The functionalities which are very popular among clients include the option of transferring and actively managing held portfolios of foreign stocks. Also, clients willingly use the foreign currency accounts that make it possible for them to use available cash in foreign currencies for investments without having to convert the currency.

At the end of the third quarter of 2014, DMBH was the market maker for 19 WSE listed companies and for futures on stocks of the most liquid companies, being one of the most active market makers on the Warsaw Stock Exchange in the reported period.

DMBH maintained 9,500 investment accounts at the end of the third quarter of 2014, which represents an increase of 8.4% versus the year ago period and 1.0% versus the previous quarter. The increase was predominantly driven by a steady growth in the number of brokerage service agreements for forex and foreign financial instruments made using the CitiFX Pro platform.

The local IPO market slowdown significantly affected the DMBH's activity in this area. In the third quarter of 2014, DMBH acted as an agent in the non-public transaction of purchase-sale of shares of Leasing Polska S.A. made between VB Leasing International Holding GmbH (the Seller) and Getin Holding S.A. (the Buyer) for the total amount of PLN 172.9 million (September 2014).

### Summary Income Statement and Balance Sheet\*

Company's Name	Headquarter	% of authorized capital held by the Bank	Total assets 30.09.2014	Total equity 30.09.2014	Net financial result for the period of 01.01-30.09.2014
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	838,679	104,140	13,014

DMBH provides its services mainly to institutional investors including both local and foreign ones. The activity of clients from these segments is closely interrelated with the performance of equity market and inflow of new funds. The low interest rates are favorable environment for equity funds therefore; a shift of investments may be expected from low-risk instruments towards equity investments. Among the main risk factors, one should mention a potentially lower stock appetite of the Open Pension Funds attributed to shortage of pension contributions following the recent pension system reform.

#### 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	% of authorized capital held by the Bank	Total assets 30.09.2014	Total equity 30.09.2014	Net financial result for the period of 01.01-30.09.2014
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	279,550	138,890	3,691

## 2. Consumer Banking

### 2.1. Summary of the segmental results

PLN '000	Q3 2014	Q3 2013	Change	
			PLN '000	%
Net interest income	172,459	159,464	12,995	8.1%
Net fee and commission income	78,067	87,057	(8,990)	(10.3%)
Net income on trading financial instruments and revaluation	8,540	8,711	(171)	(2.0%)
Net other operating income	(5,636)	(5,740)	104	(1.8%)
<b>Total income</b>	<b>253,430</b>	<b>249,492</b>	<b>3,938</b>	<b>1.6%</b>
General administrative expenses and depreciation	(178,800)	(177,510)	(1,290)	0.7%
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(4,386)	(4,604)	218	(4.7%)
<b>Profit before tax</b>	<b>70,244</b>	<b>67,378</b>	<b>2,866</b>	<b>4.3%</b>
<b>Cost/Income</b>	<b>71%</b>	<b>71%</b>		

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

- increase in net interest income primarily due to increased sales of installment products linked to credit cards and increased volumes of transactions made with payment cards. The credit products were still growing at a double digit rate (+11% YoY). Interest expenses declined as 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) and increased balances (up by 8% YoY), thanks to the continuation of the relationship banking strategy in the affluent customer segments.
- decrease in net fee and commission income due to interchange rate cut as of July 2014, partially offset by increased sales of structured products and installment products linked to credit cards as well as by increased volumes of transactions made with payment cards;
- increase in operating expenses as a result of the investment in the branch network transformation (including the Smart Banking Ecosystem), marketing and technology expenses and lower staff expenses due to the employment restructuring;
- similar result on impairment write-offs of financial assets and provisions for granted financial and guarantee liabilities due to the stabilization of the quality of the Consumer Bank's credit portfolio.

## 2.2. Selected business data

'000	Q3 2014	Q2 2014	Q3 2013	Change QoQ	Change YoY
Number of individual customers	758.7	771.5	839.8	(12.8)	(81.1)
Number of current accounts, including:	509.4	511.2	578.2	(1.8)	(68.8)
number of operating accounts	148.7	149.1	164.9	(0.4)	(16.3)
Number of operating accounts newly acquired during the reported period	16.4	17.5	15.3	(1.0)	1.2
Number of saving accounts	177.7	178.8	195.1	(1.1)	(17.3)
Number of credit cards, including:	748.2	760.3	785.1	(12.1)	(36.9)
co-branded cards	442.6	453.8	472.2	(11.2)	(29.5)
Number of active credit cards	673.8	680.8	703.3	(7.0)	(29.5)
Number of debit cards, including:	325.5	335.5	427.2	(10.0)	(101.7)
PayPass cards	304.0	312.0	388.6	(8.1)	(84.7)

## Net receivables from individual clients – management view

'000	30.09.2014	31.12.2013	30.09.2013	Change QoQ		Change YoY	
				'000	%	'000	%
Unsecured receivables, including:	4,631,871	4,215,081	4,193,093	416,790	9.9%	438,778	10.5%
Credit cards	2,120,826	1,986,860	1,975,085	133,966	6.7%	145,741	7.4%
Cash loans	2,438,469	2,154,691	2,128,366	283,778	13.2%	310,103	14.6%
Other unsecured receivables	72,576	73,530	89,642	(954)	(1.3%)	(17,066)	(19.0%)
Mortgage loans	1,193,596	1,068,199	1,031,642	125,397	11.7%	161,954	15.7%
<b>Net client receivables</b>	<b>5,825,467</b>	<b>5,283,280</b>	<b>5,224,735</b>	<b>542,187</b>	<b>10.3%</b>	<b>600,732</b>	<b>11.5%</b>

## 2.3. Key Business Highlights

### Bank accounts

- **Current accounts**

The number of individual current accounts was over 500 thousand at the end of the third quarter of 2014, including over 325 thousand PLN current accounts and 184 thousand foreign currency accounts, versus 578 thousand accounts in a prior year period. The total current account balance was over PLN 2.9 billion, an increase versus the year ago figure of PLN 2.5 billion.

- **Savings accounts**

There were 177 thousand savings accounts with a total balance of PLN 3.1 billion reported for the third quarter of 2014 compared to 195 thousand savings accounts with a total balance of PLN 3.2 billion a year ago.

- **Changes in the offer**

In July 2014, Citi Handlowy launched Citi Priority, a new product offer addressed to the aspiring customer segment defined as customers who maintain an average balance across all their accounts with the Bank of a minimum of PLN 30,000 or maintain a monthly inflow of a minimum of PLN 5,000. The Bank made also a number of acquisition efforts targeted at Citi Priority and Citigold customers, including Internet campaigns, acquisition and image-strengthening campaigns, promotional offers for deposits and funds deposited into savings accounts, as well as the 'Member Gets Member' recommendation program that resulted in Citigold and Citi Priority customers' growth of 12% and 8% YoY, respectively.

### Credit cards

There were 748.2 thousand credit cards at the end of the third quarter of 2014.

The total credit card balance was PLN 2.1 billion at the end of the third quarter of 2014, representing an increase by 7.4% versus the year ago period. As a result, the Bank further improved its performance as the credit card market leader in terms of the credit facility value granted in the form of credit cards, with a market share at 18.7% according to the data as of the end of September 2014.

In the reported period, the credit card acquisition went slightly down versus the same period of 2013. The quality of the newly acquired cards, on the other hand, was better with a higher share of the credit cards acquired on the basis on the recorded income validation data. The traditional credit cards, including Citibank Silver Credit Card and the Citibank Gold Credit Card, continued to dominate in the Bank's credit card structure in the third quarter of 2014 with the share in the total acquisition at 25% and 24%, respectively. Among the co-branded cards with the highest sales share were: Citibank World Credit Card with an acquisition share at 29%.

### Cash loan and cash loan to credit card account (ALOP)

In the third quarter of 2014, the Bank continued high in terms of the cash loan sales amounting to PLN 483.4 million. All the distribution channels of the Bank (tele-banking, branches, Internet) reported a growth YoY. Additionally, the volume of cash loans sold via Smart branches doubled versus the prior quarter.

The main cash loan acquisition activities in the third quarter of 2014 included the July's cash loan with personal account offer for Citi Priority and Citigold customers (with 1 p.p. lower interest rate), as well as the "Back to School" promotional campaign with a guaranteed award of PLN 100.

In the third quarter of 2014 the Bank launched the Online Fulfillment process where customers can buy the Cash Loan entirely online. 60% of all the Cash Loan agreements were concluded remotely (on the phone or online), which significantly shortened the Cash Loan granting process (even up to 1.5 h).

### Mortgage products

In the third quarter of 2014, the Bank continued its strategy based on the competitive pricing mortgage offer for selected customer segments, Consequently, the mortgage loan portfolio balance went up 15.7% YoY and 4.5% QoQ to PLN 1.2 billion at the end of September 2014.

## Insurance and investment products

At the end of the third quarter of 2014, the total value of assets under management invested in investment-linked products (including certificates of deposit, dual-currency deposits, investment deposits and insurance products) purchased by retail customers through the Bank was 15.4% higher than in the corresponding period of 2013, and 2.7% higher versus the figure reported for the previous quarter.

The growth in value of the above assets throughout the last four quarters was primarily driven by mutual funds, treasury bonds, structured products, unit-linked insurance products and customer funds deposited into brokerage accounts maintained by DMBH.

In order to further expand its mutual funds offer, the Bank introduced 28 foreign funds into its offer in the third quarter of 2014, including 7 bond funds and 21 equity funds, offering diversified exposure on world's markets.

In September 2014, the Bank expanded the brokerage services provided to the Bank's customers by the possibility to invest with DMBH in over 20 key overseas stock markets.

Under the agency contract with DMBH, the Bank now provides its customers with a possibility to conclude a framework agreement for performing orders in overseas markets and maintaining the foreign securities register with DMBH at the Bank's offices. At the same time, thanks to the service of accepting and transferring the orders to purchase or sell securities provided by the Bank on its own behalf, the customers can now be provided with the foreign securities register as part of their orders to purchase or sell directly via the banking service channels.

Additionally, in the third quarter of 2014, as part of its cooperation with DMBH, the Bank provided its customers with access to 3 issues of closed mutual funds' investment certificates.

## Structured products

In terms of structured products, in the third quarter of 2014, the Bank completed 18 structured bond subscriptions.

## 2.4. Development of distribution channels

### Online banking

At the end of the third quarter of 2014, the number of Citibank Online banking active users i.e. those who logged in at least once within the last 30 days, was over 338,000, up by 32,000 or 10% versus the corresponding period of 2013. The share of active Citibank Online users in the Bank's total customer portfolio grew by 8 p.p. YoY to 45% at the end of the third quarter of 2014.

At the beginning of August 2014, further Citibank Online enhancements were introduced following analyses and customer feedback. In addition to its new login page, the Bank enhanced the basic components of its core web service: simplified the process of funds transfers; remodeled its home page to enable its users to preview the last five transactions and access frequently used functions; introduced side menu with quick access to the main functions; launched a new mailing address update function. Thanks to a new management process concerning the customer enquiries submitted via Citibank Online, the response time will be shortened to one business day for most enquiries.

The enhancements lead to a growth in the number of transactions made online and with use of mobile devices. Their share in the Bank's total transactions was 94% at the end of the third quarter of 2014, representing an increase by 2 p.p. versus the year ago period.

In the third quarter of 2014, digital channels contributed to over 20% of the total credit cards sales, up by 149% versus the prior year period. At the same time, 52% of the total bank accounts booked were processed through the Online Fulfillment process launched early in 2014 (enabling customers to sign agreements with the Bank through Citibank Online, without having to visit the branch or send documents via courier). Also, the Citi Priority online acquisition campaign launched in mid quarter brought about record results in the history of bank account online sales.

## Mobile banking

As at the end of the third quarter of 2014, the number of active users of the Citi Mobile platform, i.e. users who used mobile banking once in 30 days, was over 64,000, up by 65% versus the year ago period. The share of active mobile banking users in the Citi Handlowy total customer portfolio was 8%, up by 3 p.p. YoY.

Since the Citi Mobile launch in May 2010, the application has been downloaded 182,000 times. Citi Handlowy for iPad application itself has been downloaded over 10,000 times since its launch in the third quarter of 2013.

In the third quarter of 2014, the number of transactions made with the use of Fotokasa, a service that enables to pay for VAT invoices quickly and conveniently scanning 2D codes, was 4,200 and totalled to PLN 500,000 in total.

## Indirect and Direct Customer Acquisition

- **Direct Sales**

Direct Sales channel is an important pillar of the Bank in terms of credit card sales targeting at customers from the largest cities of Poland. It comprises 20 stands located in shopping malls, 4 stands at airports and 17 stands located at movie theaters.

In the third quarter of 2014, the Direct Sales channel was increasingly focused on acquisition of higher profile customers, which was reflected in the growth of the average new credit card limits by 13% QoQ and 26% YoY. In addition, the Bank continued to develop telesales outsourced activities across Poland focusing on credit card acquisition. During the third quarter of 2014, the telesales channel registered an increase in sales of 17% QoQ and 420% versus the year ago period when the channel was just launched.

### 2.5. Branch network

#### Smart Banking Ecosystem

In the third quarter of 2014, the Bank expanded its Smart Banking Ecosystem by 4 new locations – Warsaw's Blue City shopping outlet launched in mid-July followed by Gdynia's Riviera shopping mall branch opened a week later and Cracow's Smart zone opened in the Gold branch on Karmelicka Street. At the beginning of September, the Bank launched also its second branch in Wrocław, located near the old market, being the first Smart branch combined with specialized financial services.

The above Smart branches differ in format and size, from a 65-meter area at Blue City shopping mall to over 180-meter branch located in Kameleon, Wrocław's historic department store. But all of them have been equipped with state-of-the-art technology, i.e. large media walls 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.

All 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 until long hours (even 7 days a week for 12 hours). 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 or the branch's neighborhood. 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, dedicated-marketing, convenient location and long opening hours of Smart branches resulted in improved effectiveness ratios for Citi Handlowy branches. An average credit card acquisition at a Smart branch is 10 times higher than that of traditional branches and an average Citi Priority bank account acquisition exceeds 4 times that of a traditional branch. Additionally, the newly acquired clients constituted on average from 12% to 60% of the total clients of each branch.

## Changes in branch network

At the end of the third quarter of 2014, the Bank's distribution network comprised 47 branches. As part of its operating model optimization, the Bank closed selected retail branches in Bydgoszcz, Gdańsk, Gorzów Wielkopolski, Katowice, Konin, Olsztyn, Opole, Radom, Rzeszów, Warsaw and Wrocław.

One of Warsaw's branches ceased servicing Gold customers and the Gold services were moved to other existing branch.

### Number of branches and other Points of Sale/touch points

	30.09.2014	30.06.2014	30.09.2013	Change QoQ	Change YoY
<b>Number of branches*:</b>	<b>47</b>	<b>57</b>	<b>85</b>	<b>(10)</b>	<b>(38)</b>
HUB Gold	9	11	12	(2)	(3)
Smart HUB Gold	1	-	-	1	1
Blue	27	39	70	(12)	(43)
Investment Center	2	2	2	-	-
Smart branch	7	4	1	3	6
Corporate branch	1	1	-	-	1
<b>Other PoS/touch points:</b>					
Financial agents (Open Finance, Expander and other)	274	274	274	-	-
Airports	4	5	4	(1)	-
Shopping malls and cinemas	37	52	56	(15)	(19)
Other (BP petrol stations)	-	20	-	(20)	-
Cash points (Billbird and Brinks)	4	4	11	-	(7)
Own ATMs	72	80	114	(8)	(42)

\* 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").

In the third 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 third 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 third 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.

## 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	30.09.2014		31.12.2013	
	Balance value	Fair value	Balance value	Fair value
<b>Financial assets</b>				
Amounts due from banks	2,642,367	2,642,378	3,539,927	3,540,153
Amounts due from customers	17,651,208	17,654,235	15,231,327	15,235,756
<b>Financial liabilities</b>				
Amounts due to banks	8,790,274	8,792,475	6,378,436	6,380,167
Amounts due to customers	26,443,895	26,442,858	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 reliably 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 nine months period of 2014 among equity investments which valuation at fair value was not possible, the Group decided to sell:

- its 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 profit on sale amounted PLN 2,855 thousand.
- Part of Polski Koncern Mięśny DUDA S.A shares, constituting 0.84% of share in the capital and 0.84% of votes at the General Meeting. The balance value of sold Koncern Mięśny DUDA S.A shares amounted PLN 1,051 thousand, and profit on sale amounted PLN 671 thousand.

### Valuation methods and assumptions used for the purposes of fair value

Fair value of assets and financial liabilities are calculated 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 Bank'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 flow model;
- futures – current quotations.



- For valuation of securities' transactions current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves, including decrease of credit spread, if needed, are used for valuation.
- The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis, taking into account fluctuations in market interest rates and 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 pricing services type systems, 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 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 non-market parameters.

The tables below present values of financial assets and liabilities in the consolidated statement of financial position in accordance with a fair value classified by above levels:

#### As at 30 September 2014

<i>PLN '000</i>	Level I	Level II	Total
<b>Financial assets</b>			
Financial assets held-for-trading	5,934,712	4,831,245	10,765,957
derivatives	113	4,724,539	4,724,652
debt securities	5,931,164	106,706	6,037,870
capital instruments	3,435	-	3,435
Debt securities available-for-sale	8,849,923	6,943,256	15,793,179
<b>Financial liabilities</b>			
Financial liabilities held-for-trading	1,445,867	4,957,047	6,402,914
short sale of securities	1,445,514	-	1,445,514
derivatives	353	4,957,047	4,957,400

As at 31 December 2013

PLN'000	Level I	Level II	Total
<b>Financial assets</b>			
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
<b>Financial liabilities</b>			
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

In the consolidated statement of financial position, except for assets described above, there are tangible assets available-for-sale, whose fair value decreased by sale cost is smaller than its carrying amount. In consequence, they are positioned in the consolidated statement of financial position at fair value, which as at 30 September 2014 was PLN 3,458 thousands (31 December 2013: PLN 2,653 thousands).

In the 9 month period of 2014 the Group has made no transfers between levels of instruments' fair value due to established method of setting fair value.

In the 9 month period of 2014, the Group has not made any changes in classification criteria of financial instruments' (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the 9 month period of 2014 the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

In the 9 month period 2014 there was no change in the business or economic situation, that could influence the fair value of Group's financial assets or liabilities, independently whether these assets and liabilities were presented in fair value or amortized cost.

## 11 Impairment and provisions

PLN '000	As at 1 January 2014	Increases			Decreases			As at 30 September 2014
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale fo receivables/oth er assets	Other*	
<b>Impairment of financial assets</b>								
Amounts due from banks	1,173	1,744	15	(2,488)	-	-	-	444
Amounts due from customers	984,033	164,834	776	(170,496)	(55,648)	-	(2,477)	921,022
	<b>985,206</b>	<b>166,578</b>	<b>791</b>	<b>(172,984)</b>	<b>(55,648)</b>	-	<b>(2,477)</b>	<b>921,466</b>
<b>Provisions for granted financial liabilities and guarantees</b>								
	13,150	20,029	-	(23,117)	-	-	-	10,062
	<b>998,356</b>	<b>186,607</b>	<b>791</b>	<b>(196,101)</b>	<b>(55,648)</b>	-	<b>(2,477)</b>	<b>931,528</b>
<b>Other assets impairment</b>								
Capital investment	20,630	-	-	-	-	(6,636)	-	13,994
Tangible assets available for sale	1,058	369	-	-	-	(31)	-	1,396
Other assets	643	359	-	(80)	(348)	-	-	574
	<b>22,331</b>	<b>728</b>	-	<b>(80)</b>	<b>(348)</b>	<b>(6,667)</b>	-	<b>15,964</b>
<b>Total impairment of assets and provisions for granted financial liabilities and guarantees</b>								
	<b>1,020,687</b>	<b>187,335</b>	<b>791</b>	<b>(196,181)</b>	<b>(55,996)</b>	<b>(6,667)</b>	<b>(2,477)</b>	<b>947,492</b>

PLN '000	As at 1 January 2014	Increases			Decreases			As at 30 September 2014
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale fo receivables/oth er assets	Other*	
<b>Other provisions</b>								
Contentious issues	15,313	2,966	1	(9,457)	-	-	-	8,823
Restructuring	60,821	6,773	-	(635)	-	-	(36,671)	30,288
<b>Total other provisions</b>	<b>76,134</b>	<b>9,739</b>	<b>1</b>	<b>(10,092)</b>	<b>-</b>	<b>-</b>	<b>(36,671)</b>	<b>39,111</b>

\* 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/oth er assets	Other*	
<b>Impairment of financial assets</b>								
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
	<b>1,131,053</b>	<b>247,528</b>	<b>1,055</b>	<b>(263,521)</b>	<b>(125,597)</b>	<b>(5,021)</b>	<b>(291)</b>	<b>985,206</b>
<b>Provisions for granted financial liabilities and guarantee</b>								
	11,476	32,528	-	(30,854)	-	-	-	13,150
	<b>1,142,529</b>	<b>280,056</b>	<b>1,055</b>	<b>(294,375)</b>	<b>(125,597)</b>	<b>(5,021)</b>	<b>(291)</b>	<b>998,356</b>
<b>Other assets impairment</b>								
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
	<b>33,347</b>	<b>1,623</b>	<b>93</b>	<b>(921)</b>	<b>(5)</b>	<b>(6,061)</b>	<b>(5,745)</b>	<b>22,331</b>
<b>Total impairment of assets and provisions for granted financial liabilities and guarantee</b>								
	<b>1,175,876</b>	<b>281,679</b>	<b>1,148</b>	<b>(295,296)</b>	<b>(125,602)</b>	<b>(11,082)</b>	<b>(6,036)</b>	<b>1,020,687</b>
<b>Other provisions</b>								
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)	-
<b>Total other provisions</b>	<b>17,180</b>	<b>75,701</b>	<b>12</b>	<b>(2,034)</b>	<b>-</b>	<b>-</b>	<b>(14,725)</b>	<b>76,134</b>

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

In the period 1 January – 30 September 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	30.09.2014	31.12.2013
Asset due to differed income tax	1,047,617	830,120
Provision due to differed income tax	(868,752)	(626,988)
<b>Net asset due to differed income tax</b>	<b>178,865</b>	<b>203,132</b>

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 – 30 September 2014 the value of purchased by the Group components of "fixed assets" equaled PLN 29,532 thousand (in 2013: PLN 28,286 thousand); the value of sold components equals PLN 20,522 thousand (in 2013: PLN 4,525 thousand).

As at 30 September 2014 the Group has no significant contract liabilities 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 30 September 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 9 month period of 2014 no issue, pay back or repurchase of debt or equity securities had place.

#### 17 Paid or declared dividends

##### Dividends paid

On 24 June 2014 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2013. The Meeting resolved to appropriate the amount of PLN 934,216,140.00 for the dividend payment. The dividend has the monetary nature. The dividend per one ordinary share is PLN 7.15. The number of shares covered by the dividend is 130,659,600.

Simultaneously, the WZ resolved to set the day of the right to the dividend for July 7, 2014 (day of dividend) and the day of the dividend payment for August 29, 2014 (day of the dividend payment).

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

As at 30 September 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 30 September 2014 and changes in comparison with the end of 2013 are as follows:

PLN '000	State as at		Change	
	30.09.2014	31.12.2013	PLN '000	%
<b>Contingent liabilities granted</b>				
financial	14,538,134	14,085,282	452,852	3.2
Import letters of credit issued	206,483	135,060	71,423	52.9
Credit lines granted	12,956,177	12,199,651	756,526	6.2
Subscription of securities granted to other issuers	1,104,050	1,508,050	(404,000)	(26.8)
Reverse repo transactions with future currency date	271,424	242,521	28,903	11.9
guarantees	1,823,368	1,815,857	7,511	0.4
Guarantees granted	1,796,818	1,775,108	21,710	1.2
Export letters of credit confirmed	1,414	2,509	(1,095)	(43.6)
Other	25,136	38,240	(13,104)	(34.3)
	<b>16,361,502</b>	<b>15,901,139</b>	<b>460,363</b>	<b>2.9</b>
<b>Contingent liabilities received</b>				
financial (deposits to receive)	1,508,922	1,247,960	260,962	20.9
guarantees (guarantees received)	5,551,836	4,970,167	581,669	11.7
	<b>7,060,758</b>	<b>6,218,127</b>	<b>842,631</b>	<b>13.6</b>

PLN '000	State as at		Change	
	30.09.2014	31.12.2013	PLN '000	%
<b>Contingent transactions due to FX, securities and derivatives (granted/received liabilities)</b>				
Current*	5,920,761	2,249,655	3,671,106	163.2
Forward **	281,626,749	254,642,942	26,983,807	10.6
	<b>287,547,510</b>	<b>256,892,597</b>	<b>30,654,913</b>	<b>11.9</b>

\*Foreign exchange and securities transactions with current value date

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

## 20 Changes in Group's structure

In the third 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 third 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
	<b>522,638</b>	<b>130,659,600</b>	<b>100.0</b>	<b>130,659,600</b>	<b>100.0</b>

In the period between publishing the interim consolidated financial statements for the first quarter 2014, interim consolidated financial report for the first half of 2014 and publishing this report for the third 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 third quarter 2014	Number of shares on day of publishing the Interim Consolidated Financial Report for the first half of 2014	Number of shares on day of publishing the Interim Financial Statement for the first quarter 2014
Iwona Dudzińska	Member of the Managing Board	600	600	600
Andrzej Olechowski	Chairman of Supervisory Board	1,200	1,200	1,200
<b>Total</b>		<b>1,800</b>	<b>1,800</b>	<b>1,800</b>

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

## 24 Information on pending proceedings

In the third 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 third 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 30 September 2014, the Bank was among others a party to 30 court proceedings regarding derivative transactions: in 21 proceedings the Bank acted as a defendant and in 9 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, 8 legally valid court decisions were issued - 6 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 third 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 third 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 third 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 Factors and events that may impact the financial results of the Capital Group of the Bank in the future**

A considerable risk to the Polish economy is a further slowdown of the global economy, in particular that of the euro zone and Germany. At the same time, possible further geopolitical turmoil in Eastern Europe as well as the possible further sanctions placed mutually on EU and Russia may in turn lead to a further slowdown or recession in Ukraine and Russia. Lesser foreign demand could affect exports and in so continue the economic slowdown in the country. Geopolitical turmoil may lead to temporary fluctuations on the financial markets as well as cause delays in investment projects implemented by Polish companies

A possible threat to the Polish economy remains the uncertainty as to the momentum, direction and scope of changes in the monetary policy of the largest central banks. The ECB's asset bailout program and the expected gradual tightening of the U.S. monetary policy may increase the markets' volatility. FED's interest rate increases may cause the sale of sovereign bonds by foreign investors since half of them come from the USA. This may cause a considerable depreciation of zloty negatively reflect on the macro-economic stability.

Further decrease in the foreign demand can be an obstacle to the economic growth in the country and make fiscal policy management more challenging. In case of considerable deterioration on the labor market, the Monetary Policy Council could decide to further cut the interest rates.

The above factors can influence the financial results of the Group during the upcoming period.

## Condensed interim standalone financial statements of the Bank for the third quarter 2014

### Condensed income statement

<i>PLN '000</i>	Third quarter period from 01.07.14 to 30.09.14	Third quarter accruals period from 01.01.14 to 30.09.14	Third quarter period from 01.07.13 to 30.09.13	Third quarter accruals period from 01.01.13 to 30.09.13
Interest and similar income	383,737	1,144,841	397,970	1,242,297
Interest expense and similar charges	(83,869)	(256,786)	(96,525)	(314,227)
<b>Net interest income</b>	<b>299,868</b>	<b>888,055</b>	<b>301,445</b>	<b>928,070</b>
Fee and commission income	161,941	502,553	168,081	503,860
Fee and commission expense	(23,637)	(66,864)	(23,516)	(70,205)
<b>Net fee and commission income</b>	<b>138,304</b>	<b>435,689</b>	<b>144,565</b>	<b>433,655</b>
Dividend income	25	48,867	-	8,814
Net income on trading financial instruments and revaluation	65,770	296,735	27,164	265,082
Net gain on debt investment securities	57,709	162,997	32,037	285,335
Net gain on equity investment instruments	671	3,526	-	1 844
Net loss on hedge accounting	330	(379)	-	-
Other operating income	14,566	47,443	10,622	41,383
Other operating expenses	(10,469)	(32,582)	(10,996)	(34,524)
<b>Net other operating income</b>	<b>4,097</b>	<b>14,861</b>	<b>(374)</b>	<b>6,859</b>
General administrative expenses	(280,595)	(874,316)	(291,137)	(921,520)
Depreciation and amortization	(16,485)	(49,973)	(15,494)	(38,465)
Profit on sale of other assets	595	892	(584)	(422)
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	7,808	6,198	(1,064)	14,666
<b>Profit before tax</b>	<b>278,097</b>	<b>933,152</b>	<b>196,558</b>	<b>983,918</b>
Income tax expense	(52,935)	(163,644)	(39,293)	(193,551)
<b>Net profit</b>	<b>225,162</b>	<b>769,508</b>	<b>157,265</b>	<b>790,367</b>
Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Earnings per share (in PLN)		5.89		6.05
Diluted net earnings per share (in PLN)		5.89		6.05

### Condensed statement of comprehensive income

<i>PLN '000</i>	Third quarter period from 01.07.14 to 30.09.14	Third quarter accruals period from 01.01.14 to 30.09.14	Third quarter period from 01.07.13 to 30.09.13	Third quarter accruals period from 01.01.13 to 30.09.13
<b>Net profit</b>	<b>225,162</b>	<b>769,508</b>	<b>157,265</b>	<b>790,367</b>
<b>Other comprehensive income, that might be subsequently reclassified to profit or loss</b>				
Changes in value of available-for-sale financial assets	54,548	100,490	(40,274)	(326,340)
<b>Total comprehensive income</b>	<b>279,710</b>	<b>869,998</b>	<b>116,991</b>	<b>464,027</b>



## Condensed statement of financial position

	State as at	30.09.2014	31.12.2013
<i>PLN '000</i>			
<b>ASSETS</b>			
Cash and balances with the Central Bank		673,319	778,464
Amounts due from banks		2,641,969	3,539,922
Financial assets held-for-trading		10,762,522	5,746,799
Debt securities available-for-sale		15,793,179	17,616,041
Equity investments		244,802	247,483
Amounts due from customers		17,338,076	14,811,383
Tangible fixed assets		340,893	355,655
Intangible assets		1,393,566	1,415,204
Current income tax receivables		-	72,837
Deferred income tax asset		179,552	204,035
Other assets		166,136	161,196
Non-current assets held-for-sale		13,544	12,738
<b>Total assets</b>		<b>49,547,558</b>	<b>44,961,757</b>
<b>LIABILITIES</b>			
Amounts due to banks		8,655,352	6,172,957
Financial liabilities held-for-trading		6,402,914	4,196,896
Hedging derivatives		-	24,710
Amounts due to customers		26,547,482	26,634,357
Provisions		49,109	88,701
Current income tax liabilities		18,493	-
Other liabilities		717,204	622,914
<b>Total liabilities</b>		<b>42,390,554</b>	<b>37,740,535</b>
<b>EQUITY</b>			
Ordinary shares		522,638	522,638
Share premium		2,944,585	2,944,585
Revaluation reserve		57,300	(43,190)
Other reserves		2,862,973	2,862,407
Retained earnings		769,508	934,782
<b>Total equity</b>		<b>7,157,004</b>	<b>7,221,222</b>
<b>Total liabilities and equity</b>		<b>49,547,558</b>	<b>44,961,757</b>

## Condensed statement of changes in equity

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2014</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(43,190)</b>	<b>2,862,407</b>	<b>934,782</b>	<b>7,221,222</b>
Total comprehensive income, including:	-	-	100,490	-	769,508	869,998
Net profit	-	-	-	-	769,508	769,508
Net valuation of available-for-sale financial assets	-	-	100,490	-	-	100,490
Dividends paid	-	-	-	-	(934,216)	(934,216)
Transfer to capital	-	-	-	566	(566)	-
<b>Balance as at 30 September 2014</b>	<b>522,638</b>	<b>2,944,585</b>	<b>57,300</b>	<b>2,862,973</b>	<b>769,508</b>	<b>7,157,004</b>

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2013</b>	<b>522,638</b>	<b>2,944,585</b>	<b>257,579</b>	<b>2,610,228</b>	<b>1,008,698</b>	<b>7,343,728</b>
Total comprehensive income, including:	-	-	(326,340)	-	790,367	464,027
Net profit	-	-	-	-	790,367	790,367
Net valuation of available-for-sale financial assets	-	-	(326,340)	-	-	(326,340)
Dividends paid	-	-	-	-	(756,519)	(756,519)
Transfer to capital	-	-	-	252,179	(252,179)	-
<b>Balance as at 30 September 2013</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(68,761)</b>	<b>2,862,407</b>	<b>790,367</b>	<b>7,051,236</b>

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

## Condensed summary statement of cash flows

<i>PLN '000</i>	Third quarter accruals period from 01.01.14 to 30.09.14	Third quarter accruals period from 01.01.13 to 30.09.13
<b>Cash at the beginning of the reporting period</b>	<b>1,120,157</b>	<b>1,533,791</b>
Cash flows from operating activities	756,598	1,919,946
Cash flows from investing activities	26,446	(58,419)
Cash flows from financing activities	(878,572)	(692,656)
<b>Cash at the end of the reporting period</b>	<b>1,024,629</b>	<b>2,702,662</b>
<b>Increase/(decrease) in net cash</b>	<b>(95,528)</b>	<b>1,168,871</b>

## 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 third 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 9 month period ended 30 September 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 third 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 third 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 third quarter of 2014 is presented below.

### Bank's financial results

For first three quarters of 2014 the Bank has generated profit before tax of PLN 933 million, in comparison to PLN 984 million in the corresponding period of 2013. Gross profit in third quarter 2014 was PLN 278 million, in comparison to PLN 197 million in the same period of 2013.

Net profit accruals( for January-September period) was PLN 770 million in comparison to PLN 790 million of net profit in the corresponding period of 2013, while net profit in third quarter of 2014 was 13

PLN 225 milion in comparison to PLN 157 milion of net profit in corresponding period of 2013.

The significant on the Bank net profit in the third quarter 2014 had increase of financial instruments result (trade financial instruments and revaluation, debt securities and capital securities) by total of PLN 65 milion (109.7%), decrease in Bank's activity costs and general and administrative expenses and depreciation by total of PLN 10 milion (3.1%), decrease decrease in (net) impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities by PLN 9 milion, increase of financial result on other operating income and expenses as well as income on sale of other assets by PLN 6 milion, decrease of interest and fees result by PLN 8 milion (1.8%) and higher income tax burden by PLN 14 milion (34.7%).

The consolidated quarter report for the third quarter of 2014 will be available on the website of Bank Handlowy w Warszawie S.A. at [www.citihandlowy.pl](http://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

04.11.2014

04.11.2014

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