citi handlowy

REPORT ON ACTIVITIES OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. IN THE FIRST HALF OF 2014

AUGUST 2014

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I. Poland's economy in the first half of 2014

1. Main macroeconomic trends

Macroeconomic data suggest that economic growth accelerated in the first half of 2014. GDP grew by 3.4% YoY in the first quarter of 2014 compared to 2.7% YoY in the fourth quarter of 2013 and 1.6% YoY in 2013. However, monthly data for April-June 2014 indicate that the growth slowed down in the second quarter to ca. 3.0% YoY. The main driver of growth in the first half of 2014 was domestic demand including both private consumption and investments. The growth of industrial production slowed down somewhat in the first half of the year to 4.4% YoY from 4.8% in the second half of 2013, which coincided with stabilization of PMI at ca. 53 points but also with an acceleration in the growth of exports in January-May to 9% YoY from 5.9% YoY and in the growth of imports to 6.6% YoY from 2.0% YoY. The recovery of foreign trade was driven by improved economic activity in the euro zone. In addition, the growth rate of construction output stepped up to 9.7% YoY after it fell by 3.6% YoY in the second half of 2013.

The conditions on the labor market continued to improve gradually as reflected in the rising demand for labor. The growth of employment stepped up to 0.4% YoY in the first half of 2014 from -0.2% YoY in the second half of 2013 and -0.6% YoY for the full year 2013. After a seasonal increase to 14% early in the year from 13.4% at the end of 2013, the registered unemployment rate fell to 12% at the end of the first half of 2014. The growth of wages increased to 4.2% YoY from 3% YoY in the second half of 2013. As a result, the growth of the total wage bill increased to 4.5% YoY from 2.8% YoY. Furthermore, the growth of total loans accelerated to 4.6% YoY from 3.5% YoY in the second half of 2013. Consequently, the growth of retail sales stepped up to 4.7% YoY in January-June from 4.1% YoY and in real terms to 5.0% YoY from 4.3% YoY.

The decrease of food prices resulting from favorable trends on the global markets, the Russian embargo on meat and overproduction on the sugar market kept inflation very low (ca. 0.4% on average in the first half of 2014 compared to 0.9% in the first half of 2013). Despite gradual improvement of domestic demand, net inflation decreased to 0.9% YoY from 1.3% YoY in the second half of 2013. After stabilization in the first quarter, inflation decreased further in the second quarter and is likely to fall temporarily below zero for the first time ever this summer. Although inflation continued to decrease well below the inflation target, the Monetary Policy Council maintained the interest rates unchanged (reference rate at 2.50%) mainly due to gradual acceleration of economic growth and mid-term inflation growth expectations.

2. Money and forex markets

In the first half of 2014, the zloty was relatively stable although it depreciated slightly against the euro in the six months as the EUR/PLN exchange rate rose to 4.1569 at the end of June 2014 from 4.1497 at the end of 2013. The USD/PLN exchange rate rose to 3.0361 at the end of June 2014 from 3.0160 at the end of December 2013. The periodic depreciation of the zloty was driven, among other factors, by the weaker bond market early in the year and rising geopolitical risk in view of the Russian-Ukrainian conflict. At the end of the first half of 2014, the zloty began to make up for the losses in view of increased investor demand for currencies of emerging markets due to low global volatility.

The debt market strengthened substantially in the first half of the year in response to inflation being much below the expectations and to the downward trend in yields on the underlying markets driven initially by weak data of the US economy for the first quarter and later by relaxation of the monetary policy in the euro zone. Furthermore, debt prices was supported in the second quarter by Polish economic data which were somewhat weaker than expected.

The yields of 2Y bonds stood at 2.50% at the end of the first half of 2014 compared to 3.03% at the end of 2013. The yields of 10Y bonds dropped by 84 basis points to 3.51% in the first half of 2014. 3M WIBOR decreased by 3 basis points to 2.68% as of June 30, 2014.

3. Capital market

The record-low interest rates and further economic improvement did not translate into a major increase of stock prices on the local market in the first half of 2014. The impact of those factors was offset both by global developments (economic slow-down in China, escalation of the Ukrainian-Russian crisis) and local events (no major improvement in profits of public companies, new regulations applicable to open pension funds, limited inflow into funds with exposure to Polish stocks).

The blue-chip index WIG20 rose by mere 0.3% year to date. The mid-cap index performed somewhat better and rose by 3% in the first half of 2014. The broad market index WIG reached nearly 51,935 points, an increase of 1.3% compared to the end of 2013.

In the first half of 2014, the energy industry index WIG-Energy was the unchallenged performance leader of all sector indices (an increase of 26%). Food companies were under the biggest pressure in the first half of 2014 as their subindex lost 15.6%. The other falling indices were the construction company index WIG-Construction and the IT company index (WIG-IT), which dropped 8.2% and 8.5%, respectively.

The number of initial public offerings (13 new listings) and the value of the IPOs (more than PLN 455 million) in the first half of 2014 suggest some improvement on the IPO market compared to the first half of 2013 (when 9 companies were newly listed on the WSE and their IPOs totaled PLN 333 million).

At the end of June 2014, 458 stocks were traded on the main market of the Warsaw Stock Exchange and their market capitalization was over PLN 905 billion (+7.8% compared to the end of 2013). The share of domestic companies in the aggregate capitalization on the WSE decreased from 71% at the beginning of the year to 67% (PLN 607 billion).

Warsaw Stock Exchange (WSE) Equity Indices as of June 30, 2014

Index	30.06.2014 (1)	31.12.2013 (2)	Change (%) (1)/(2)	30.06.2013 (3)	Change (%) (1)/(3)
WIG	51,934.94	51,284.25	1.3%	44,747,79	16.1%
WIG-PL	53,233.97	52,377.63	1.6%	45,442,51	17.1%
WIG-div	1,144.52	1,131.43	1.2%	962.64	18.9%
WIG30*	2,585.55	2,537.53	1.9%	-	-
WIG50**	3,083.71	-	-	-	-
WIG250**	1,242.93	-	-	-	-
WIG20	2,408.81	2,400.98	0.3%	2,245.64	7.3%
mWIG40	3,446.01	3,345.28	3.0%	2,776.93	24.1%
Sector sub-indices					
WIG-Banks	8,125.78	8,014.15	1.4%	6,598.44	23.1%
WIG-Construction	2,072.14	2,257.09	(8.2%)	1,851.41	11.9%
WIG-Chemicals	12,084.55	11,645.90	3.8%	11,447.78	5.6%
WIG-Developers	1,500.68	1,486.67	0.9%	1,476.14	1.7%
WIG-Energy	4,353.38	3,453.73	26.0%	3,207.57	35.7%
WIG-IT	1,247.43	1,363.92	(8.5%)	1,160.39	7.5%
WIG-Media	3,693.72	3,476.78	6.2%	2,875.12	28.5%
WIG-Fuel	3,280.15	3,215.11	2.0%	3,524.10	-6.9%
WIG-Food	2,743.83	3,249.28	(15.6%)	3,103.44	-11.6%
WIG-Commodities	4,164.49	4,118.45	1.1%	3,880.97	7.3%
WIG-Telecoms	1,033.16	1,005.35	2.8%	797.01	29.6%

Source: WSE, Dom Maklerski Banku Handlowego S.A. ("DMBH")
** index calculated since September 23, 2013; ** index calculated since March 24, 2014*

Equity, bond and derivatives trading volumes on WSE in the first half of 2014

	1st half of 2014	Change (%) 1H14/2H13	2nd half of 2013	Change (%) YoY	1st half of 2013
Equity (PLN million)*	235,376	(5.1%)	247,981	(10.9%)	264,312
Bonds (PLN million)	970	(21.0%)	1,228	(53.3%)	2,078
Futures ('000 contracts)	10,288	(9.5%)	11,374	(15.9%)	12,238
Options ('000 contracts)	428	(46.4%)	799	(47.7%)	818

** figures excluding calls*
Source: WSE, DMBH

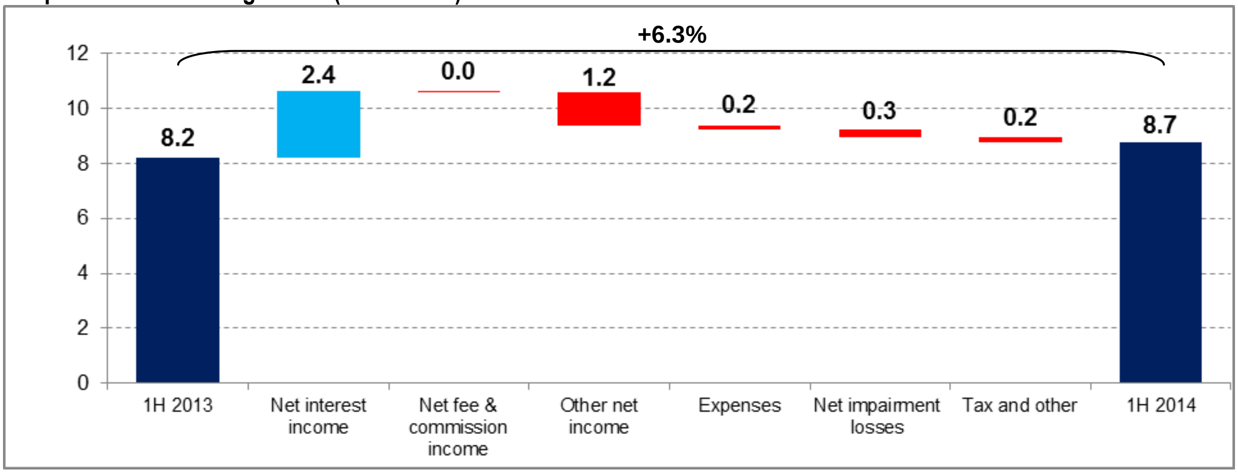
In the first six months of 2014, the total value of trade on the WSE stock market was more than PLN 235 billion (net of tender offers). Trade in equities decreased compared to the second half of 2013 (-5.1%) and year on year (-10.9%).

Trade in bonds decreased even more sharply in the first half of 2014. Trade in debt instruments in the first half of 2014 decreased by 53% compared to the first half of 2013 and by 21% compared to the second half of 2013.

Derivatives also attracted less interest from investors. The volume of trade in futures was nearly PLN 10.3 million, down by 9.6% compared to the second half of 2013 and by 15.9% compared to the first half of 2013. The volume of trade in options shrank year on year by ca. 390,000 instruments – to 428,000.

4. Banking sector

Net profit of the banking sector (PLN billion)

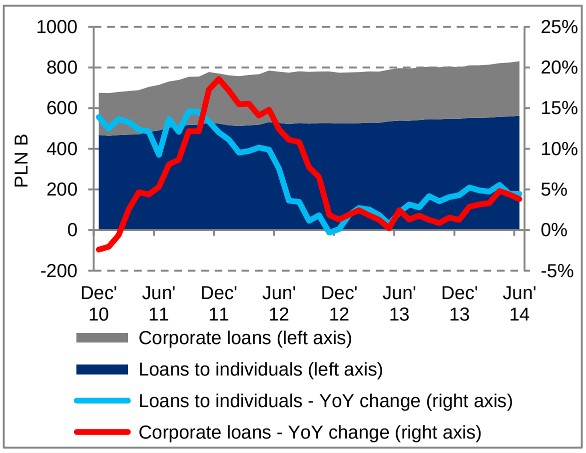


Source: NBP, own calculations

The net profit of the banking sector increased by 6.3% YoY (PLN 521 million) in the first half of 2014. The main driver of the improvement was an increase in the net interest income by 14.7% YoY (PLN 2.4 billion) due to higher lending, especially in terms of high-margin products. The decrease in the net fee and commission income by 0.2% YoY (PLN -12 million) and in the net income on other banking activity by 22.4% YoY (PLN -1.2 billion) reduced the positive growth rate. As a result, the total revenue of the banking sector increased by 4.0% YoY to PLN 29.9 billion. The net profit of the banking sector was negatively affected by an increase of net impairment provisions by 7.7% YoY (PLN 284 million) as well as expenses and depreciation by 1.1% YoY (PLN 163 million).

Despite growing provisions, the quality of the loan portfolio improved, especially for corporate loans where the NPL ratio was on the decrease (-0.8 p.p. YoY to 10.9% at the end of June 2014). The decrease was reported in equal degree for the portfolio of loans for large corporations (-0.8 p.p. YoY to 8.7%) and loans for SMEs (-0.7 p.p. YoY to 12.6%). The household loan portfolio also improved modestly (-0.2 p.p. YoY to 7.0% at the end of June 2014). The improvement was driven by a better quality of the consumer loan portfolio (-1.9 p.p. YoY to 14.2%), while the quality of mortgage loans deteriorated year on year (-0.2 p.p. YoY to 3.2%).

Loans granted to corporate entities and individuals



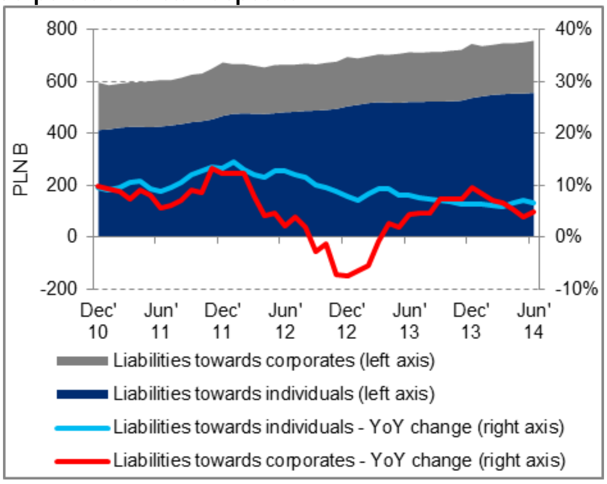
Source: NBP, own calculations

The efficiency of the sector as measured by the cost/income ratio improved substantially. The ratio decreased from 52.6% in the first half of 2013 to 50.5% in the first half of 2014.

The growth rate of loans to the non-financial sector gradually improved throughout the year and reached 4.2% YoY at the end of June 2014 (PLN +37.6 billion to PLN 935.3 billion). The value of loans granted to enterprises increased by 3.8% YoY and stood at PLN 268.2 billion after the first half of 2014. From the perspective of the purpose of corporate loans, the growth rate of investment loans improved noticeably (9.2% YoY, PLN +7.6 billion to PLN 89.6 billion) combined with a fast growth of loans with maturities from 1 to 5 years (an increase of 9.0% YoY, PLN +5.7 billion to PLN 69.4 billion).

Loans granted to individuals also followed a positive trend. With a growth rate of 3.6% YoY, the volume of loans increased by PLN 16.7 billion to PLN 477.0 billion. The growth was driven both by an improvement in non-mortgage loans (5.1% YoY, PLN +6.5 billion to PLN 134.7 billion) and an increase in mortgage loans (3.1% YoY, PLN +10.2 billion to PLN 342.4 billion) brought about by the growing segment of PLN mortgage loans (+16.1% YoY, increase of PLN 24.9 billion). The changes of the currency exchange rates (CHF/PLN -2.4% YoY, EUR/PLN -3.9% YoY) caused the value of the currency mortgage loan portfolio to decrease (-8.3% YoY, decrease of PLN 3.1 billion to PLN 162.9 billion).

Corporate and retail deposits



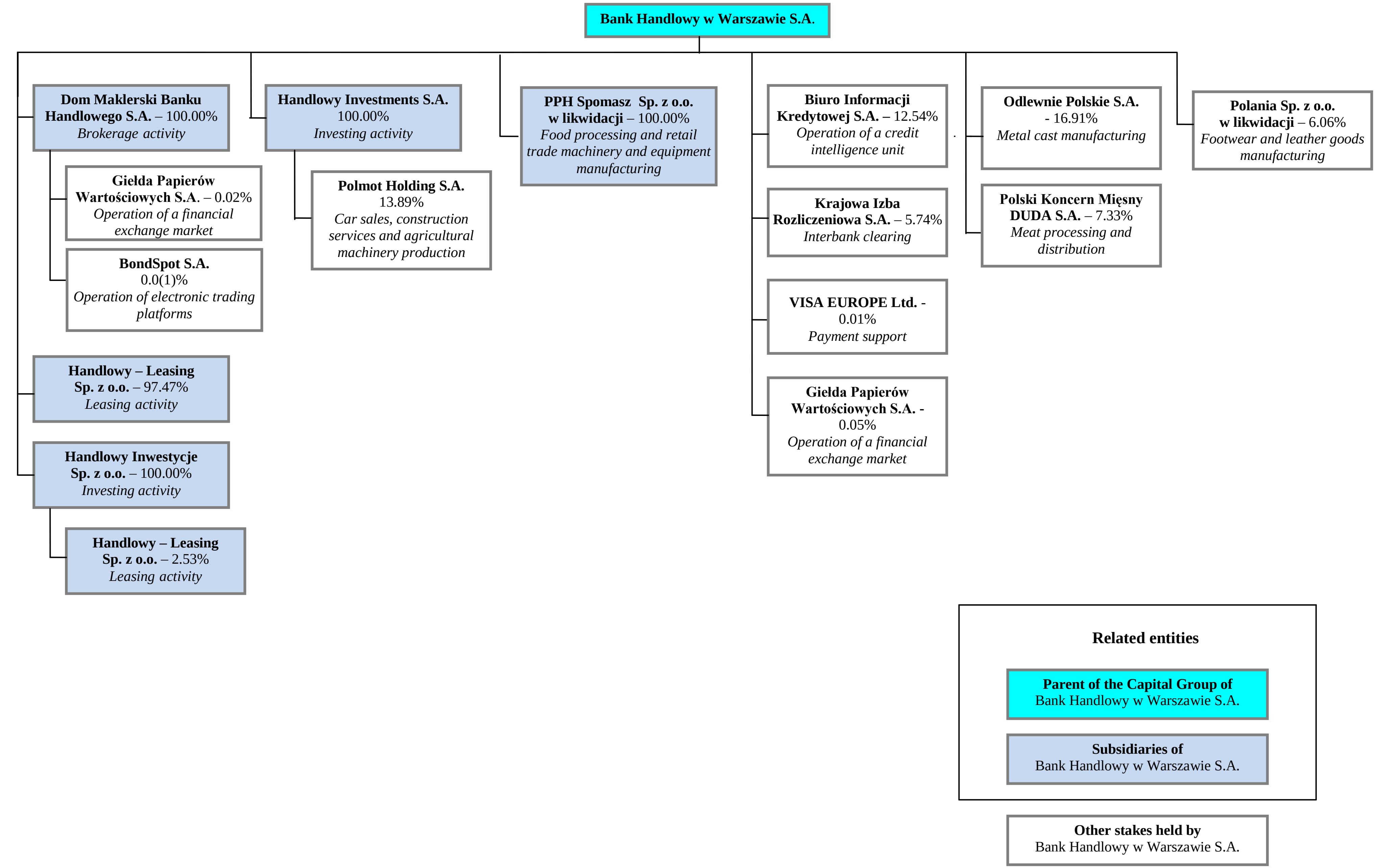
Source: NBP, own calculations

Deposits of the non-financial sector increased by PLN 64.4 billion year on year (+7.9% to PLN 883.4 billion). Deposits of individuals represented a major part of the increase: their growth rate was 6.4% YoY at the end of the first half of 2014. In terms of individual clients, the volumes of term deposits grew more (PLN +19.2 billion to PLN 269.1 billion) than current deposits (PLN +12.1 billion to PLN 520.6 billion).

Corporate deposits also grew noticeably. With a growth rate of 4.8% YoY, their volume increased by PLN 9.2 billion to PLN 200.3 billion. The growth was driven by a significant increase of current deposits (16.7% YoY, PLN +15.9 billion to PLN 110.6 billion) while term deposits decreased by 6.9% YoY (PLN -6.7 billion to PLN 89.7 billion).

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

The organizational chart below depicts the structure of the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as of June 30, 2014; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego S.A. – 100.00% Brokerage activity
Giełda Papierów Wartościowych S.A. – 0.02% Operation of a financial exchange market
BondSpot S.A. 0.0(1)% Operation of electronic trading platforms
Handlowy – Leasing Sp. z o.o. – 97.47% Leasing activity
Handlowy Inwestycje Sp. z o.o. – 100.00% Investing activity
Handlowy – Leasing Sp. z o.o. – 2.53% Leasing activity
Handlowy Investments S.A. 100.00% Investing activity
Polmot Holding S.A. 13.89% Car sales, construction services and agricultural machinery production
PPH Spomasz Sp. z o.o. w likwidacji – 100.00% Food processing and retail trade machinery and equipment manufacturing
Biuro Informacji Kredytowej S.A. – 12.54% Operation of a credit intelligence unit
Krajowa Izba Rozliczeniowa S.A. – 5.74% Interbank clearing
VISA EUROPE Ltd. - 0.01% Payment support
Giełda Papierów Wartościowych S.A. - 0.05% Operation of a financial exchange market
Odlewnie Polskie S.A. - 16.91% Metal cast manufacturing
Polski Koncern Mięsny DUDA S.A. – 7.33% Meat processing and distribution
Polania Sp. z o.o. w likwidacji – 6.06% Footwear and leather goods manufacturing
Related entities
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiaries of Bank Handlowy w Warszawie S.A.
Other stakes held by Bank Handlowy w Warszawie S.A.

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

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

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2014
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	6,877,294
Dom Maklerski Banku Handlowego S.A. ("DMBH")***	Brokerage activities	subsidiary	100.00%	full consolidation	102,126
Handlowy - Leasing Sp. z o.o.***	Leasing activities	subsidiary	100.00%**	full consolidation	137,554
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	43,389
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	Entity under liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2014*
*** Including indirect participations*
**** Pre-audit data*

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2014
Handlowy Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	11,252

**** Pre-audit data*

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

1. Summary financial data of the Group

PLN million	30 Jun 2014	31 Dec 2013
Total assets	45,374.5	45,398.4
Total equity	6,932.6	7,307.3
Amounts due from customers*	16,999.6	15,231.3
Customer deposits*	25,837.0	26,084.7
Net profit	513.9	972.7
Capital adequacy ratio	17.0%	17.5%

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*

2. Financial result of the Group for the first half of 2014

2.1 Income statement

In the first half of 2014, the Group posted a net profit of PLN 513.9 million, representing a decrease of PLN 141.9 million (i.e. 21.6%) compared to the net profit of PLN 655.8 million for the first half of 2013. The profit before tax for the first half of 2014 was PLN 627.5 million, representing a decrease of PLN 187.7 million as compared to the first half of 2013.

The revenue of the Group decreased by PLN 201.7 million (i.e. 13.7%) in the same period and stood at PLN 1,271.6 million. The main driver of the decrease in revenue was a lower net income on investment debt securities: PLN 105.3 million compared to PLN 253.3 million, which was a record-high net income generated under favorable conditions on the domestic debt market in the first half of 2013.

In the first half of 2014, Citi Handlowy continued the policy of cost discipline and reduced operating costs and general administrative expenses as well as depreciation by PLN 32.9 million, i.e. 4.9% to PLN 642.8 million. The Bank reported a low cost of risk: net impairment losses on financial assets and provisions for financial and guarantee commitments stood at PLN 2.0 million. The balance declined compared to the first half of 2013 due to the positive impact of the sale of some impaired retail exposures in the second quarter of 2013 (PLN 23.3 million impact on profit before tax in the first half of 2013).

The effective tax rate in the first half of 2014 was lower than the year before due to a lower income tax charge in the second quarter of 2014 owing to the recognition of an expected corporate income tax refund.

Selected income statement items

	1st half of		Change	
PLN'000	2014	2013	PLN'000	%
Net interest income	595,204	637,629	(42,425)	(6.7%)
Net fee and commission income	324,127	328,760	(4,633)	(1.4%)
Dividend income	5,682	4,225	1,457	34.5%
Net income on trading financial instruments and revaluation	231,325	237,853	(6,528)	(2.7%)
Net gain on investment debt securities	105,288	253,298	(148,010)	(58.4%)
Net gain on investment equity instruments	2,855	1,844	1,011	54.8%
Net loss on hedge accounting	(709)	-	(709)	-
Net other operating income	7,867	9,775	(1,908)	(19.5%)
Total income	**1,271,639**	**1,473,384**	**(201,745)**	**(13.7%)**
General administrative expenses and depreciation:	(642,766)	(675,688)	32,922	(4.9%)
General administrative expenses	(606,582)	(648,893)	42,311	(6.5%)
Depreciation and amortization	(36,184)	(26,795)	(9,389)	35.0%
Profit on sale of non-financial assets	297	162	135	83.3%
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(1,997)	18,728	(20,725)	-
Share in net profits/losses of entities valued at equity method	313	(1,366)	1,679	-
Profit before tax	**627,486**	**815,220**	**(187,734)**	**(23.0%)**
Income tax expense	(113,587)	(159,446)	45,859	(28.8%)
Net profit	**513,899**	**655,774**	**(141,875)**	**(21.6%)**

2.1.1 Revenues

The net interest income in the first half of 2014 was PLN 595.2 million compared to PLN 637.6 million in the first half of 2013. The decrease of PLN 42.4 million, i.e. 6.7%, was driven by lower interest income on debt securities available-for-sale (PLN -13.4 million) and held-for-trading (PLN -13.1 million) as well as a lower net interest income on customer operations as a result of reduced base interest rates (the net interest income decreased by PLN 22.3 million but the decrease of interest income by PLN 65.2 million was partly offset by a PLN 42.9 million decrease in interest costs).

The net fee and commission income was PLN 324.1 million in the first half of 2014 compared to PLN 328.8 million in the first half of 2013; the decrease of PLN 4.6 million, i.e. 1.4%, was mainly driven by lower income from the brokerage activity (PLN -13.9 million, i.e. 26.7%) which was boosted in the first half of 2013 by commissions on major transactions on the capital market (the accelerated sale of a stake in Bank Pekao S.A. and PKO Bank Polski and the SPO of BZ WBK). On the other hand, the net fee and commission income on payment cards and credit cards increased (PLN +10.1 million, i.e. 11.8%) owing to a bigger volume of transactions with payment cards and an increase in the net fee and commission income on custody services (PLN +4.6 million, i.e. 9.3%).

The net income on trade financial instruments and revaluation was PLN 231.3 million in the first half of 2014 compared to PLN 237.9 million in the first half of 2013; the modest decrease of PLN 6.5 million, i.e. 2.7%, was due to a lower result both on transactions with clients and on interbank market operations.

The net gain on investment debt securities was PLN 105.3 million in the first half of 2014 compared to a record-high gain on sale of securities at PLN 253.3 million realized in the first half of 2013 (decrease of PLN 148.0 million, i.e. 58.4%).

2.1.2 Expenses

The operating costs, general administrative expenses and depreciation of the Group stood at PLN 642.8 million in the first half of 2014 compared to PLN 675.7 million in the first half of 2013. The decrease of expenses by PLN 32.9 million, i.e. 4.9%, was mainly owed to reduced staff expenses following, among others, the workforce restructuring process initiated in October 2013. The general administrative expenses also decreased modestly (by PLN 3.4 million, i.e. 1.1%), mainly in telecommunication fees and IT hardware, as well as external services (advisory, audit, postal and other). On the other hand, depreciation of property and equipment and amortization of intangible assets (related to the Consumer Bank's IT system) increased, as did fees paid to the Banking Guarantee Fund (due to introduction of a stabilization fund fee).

2.1.3 Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees

Net impairment losses and provisions

PLN'000	1st half of		Change	
	2014	2013	PLN'000	%
Net impairment losses incurred but not reported (IBNR)	11,064	11,967	(903)	(7.5%)
Net impairment losses on loans and provisions for financial and guarantee liabilities	(13,293)	3,740	(17,033)	-
classifiable (individual assessment)	(12,008)	(17,685)	5,677	(32.1%)
delinquency managed (portfolio assessment)	(1,285)	21,425	(22,710)	-
Other	232	3,021	(2,789)	(92.3%)
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	**(1,997)**	**18,728**	**(20,725)**	**-**

In the first half of 2014 net impairment losses on financial assets and provisions for financial and guarantee commitments amounted to PLN 2.0 million versus the reversal of net impairment losses of PLN 18.7 million in the first half of 2013. The latter amount was positively impacted by PLN 23.3 million from the sale of a part of retail impaired exposures in the second quarter of 2013. In the Consumer Banking the quality of the portfolio of unsecured receivables stabilized and net impairment losses amounted to PLN 0.03 million in the first half of 2014. At the same time the NPL ratio improved to 9.7% from 11.9% as of June 30, 2013. In the Corporate Banking net impairment losses decreased by PLN 18.9 million, i.e. 90.6%

YoY, in the first half of 2014 as a result of the improvement of the quality of the credit portfolio in MME and SME segments.

2.1.4 Ratio analysis

Selected financial ratios

	1st half of 2014	1st half of 2013
Return on equity (ROE) *	13.1%	17.9%
Return on assets (ROA) **	1.8%	2.7%
Cost/Income (C/I)	50.5%	45.9%
Non-financial sector loans to non-financial sector deposits	74%	73%
Non-financial sector loans to total assets	35%	32%
Net interest income to total revenue	47%	43%
Net fee and commission income to total revenue	25%	22%

** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis.*

*** Net profit to average total assets calculated on a quarterly basis.*

Employment within the Group

FTEs	1st half of 2014	1st half of 2013	Change	
			FTEs	%
Average no. of jobs in the period	4,424	4,930	(506)	(10.3%)
No. of jobs at the end of the period	4,332	4,796	(464)	(9.7%)

There was a further drop in employee number in the Group in the first half of 2014 compared to the same period of the previous year, following the process of employment restructuring started in October 2013.

2.2 Consolidated statement of financial position

As of June 30, 2014 total assets of the Group reached PLN 45.4 billion, i.e. they remained almost unchanged (-0.1%) compared to the end of 2013.

Consolidated statement of financial position

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
ASSETS				
Cash and balances with the Central Bank	1,223,516	778,464	445,052	57.2%
Amounts due from banks	4,628,034	3,539,927	1,088,107	30.7%
Financial assets held-for-trading	6,990,515	5,751,829	1,238,686	21.5%
Debt securities available-for-sale	12,857,655	17,616,041	(4,758,386)	(27.0%)
Equity investments valued at equity method	8,126	7,814	312	4.0%
Equity investments available-for-sale	13,671	15,280	(1,609)	(10.5%)
Amounts due from customers	16,999,632	15,231,327	1,768,305	11.6%
Tangible fixed assets	377,406	384,581	(7,175)	(1.9%)
Intangible assets	1,402,198	1,417,363	(15,165)	(1.1%)
Current income tax receivables	1,383	80,854	(79,471)	(98.3%)
Deferred income tax asset	190,884	203,132	(12,248)	(6.0%)
Other assets	667,979	359,039	308,940	86.0%
Non-current assets held-for-sale	13,544	12,738	806	6.3%
Total assets	**45,374,543**	**45,398,389**	**(23,846)**	**(0.1%)**
LIABILITIES				
Amounts due to banks	4,051,384	6,378,436	(2,327,052)	(36.5%)

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Financial liabilities held-for-trading	5,775,176	4,196,896	1,578,280	37.6%
Hedging derivatives	-	24,710	(24,710)	(100.0%)
Amounts due to customers	26,299,341	26,568,765	(269,424)	(1.0%)
Provisions	62,148	89,284	(27,136)	(30.4%)
Current income tax liabilities	12,395	84	12,311	-
Other liabilities	2,241,505	832,950	1,408,555	169.1%
Total liabilities	**38,441,949**	**38,091,125**	**350,824**	**0.9%**
EQUITY				
Ordinary shares	522,638	522,638	-	-
Share premium	3,000,298	2,997,759	2,539	0.1%
Revaluation reserve	2,964	(42,963)	45,927	-
Other reserves	2,898,679	2,859,388	39,291	1.4%
Retained earnings	508,015	970,442	(462,427)	(47.7%)
Total equity	**6,932,594**	**7,307,264**	**(374,670)**	**(5.1%)**
Liabilities and equity	**45,374,543**	**45,398,389**	**(23,846)**	**(0.1%)**

2.2.1 Assets

Gross amounts due from customers

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Non-banking financial institutions	1,237,507	734,594	502,913	68.5%
Non-financial companies	10,414,272	9,503,087	911,185	9.6%
Individuals	6,137,325	5,819,087	318,238	5.5%
Public sector entities	139,827	157,909	(18,082)	(11.5%)
Non-commercial institutions	588	683	(95)	(13.9%)
Total gross receivables from clients	**17,929,519**	**16,215,360**	**1,714,159**	**10.6%**

In the first half of 2014 gross client receivables grew by PLN 1.7 billion or 10.6% compared to the end of 2013 and amounted to PLN 17.9 billion.

The increase was mainly driven by lending growth in the non-financial sector (PLN +1.2 billion, or 7.8%) and higher receivables for reverse repo transactions in the financial sector (PLN +0.5 billion). Receivables in the non-financial sector increased both on the side of corporate customers (loans to non-financial companies went up by PLN 0.9 billion, or 9.6%, driven by increase in all customer segments) and retail clients (PLN +0.3 billion, or 5.5%; increase in all products, with the highest dynamics reported for unsecured loans).

Customer net receivables

PLN '000	As of		Change	
	30.06.2014	31.12.2013	PLN '000	%
Receivables from financial sector entities, including:	**1,218,369**	**715,466**	**502,903**	**70.3%**
Reverse repo transactions	557,813	100,789	457,024	-
Receivables from non-financial sector entities, including:	**15,781,263**	**14,515,861**	**1,265,402**	**8.7%**
Corporate customers*	10,136,029	9,232,581	903,448	9.8%
Individual customers, including:	5,645,234	5,283,280	361,954	6.9%
Unsecured receivables	4,502,548	4,215,081	287,467	6.8%
Mortgage loans	1,142,686	1,068,199	74,487	7.0%
Total net customer receivables	**16,999,632**	**15,231,327**	**1,768,305**	**11.6%**

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

Debt securities portfolio

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Treasury bonds, including:	8,661,029	8,680,192	(19,163)	(0.2%)
Treasury covered bonds in fair value hedge accounting	-	1,836,219	(1,836,219)	(100.0%)
Bonds issued by banks	786,890	1,402,876	(615,986)	(43.9%)
The Central Bank (NBP) cash bills	6,498,619	9,748,646	(3,250,027)	(33.3%)
Debt securities, total	**15,946,538**	**19,831,714**	**(3,885,176)**	**(19.6%)**

In the first half of 2014 the end-of-period balance of the debt securities portfolio decreased by PLN 3.9 billion (i.e. 19.6%) compared to the end of 2013, mainly as a result of the reduced position in Polish Central Bank cash bills classified to the available for sale portfolio and bonds issued by banks. The value of the Treasury bonds as of June, 30, 2014 remained almost unchanged driven by simultaneous growth of held-for-trading portfolio and a decrease of available-for-sale bonds.

2.2.2 Liabilities

Liabilities towards customers

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Deposits from financial sector entities	**4,616,380**	**3,259,867**	**1,356,513**	**41.6%**
Deposits of non-financial sector entities, including:	**21,220,585**	**22,824,846**	**(1,604,261)**	**(7.0%)**
non-financial companies	10,860,272	11,956,825	(1,096,553)	(9.2%)
non-commercial institutions	352,820	396,577	(43,757)	(11.0%)
individual customers	7,366,144	6,907,183	458,961	6.6%
public sector units	2,641,349	3,564,261	(922,912)	(25.9%)
Other liabilities	**462,376**	**484,052**	**(21,676)**	**(4.5%)**
Liabilities towards customers, total	**26,299,341**	**26,568,765**	**(269,424)**	**(1.0%)**
Deposits of financial and non-financial sector entities, including:				
in PLN	20,350,572	20,082,062	268,510	1.3%
in foreign currency	5,486,393	6,002,651	(516,258)	(8.6%)
Deposits from financial and non-financial sector entities, total	**25,836,965**	**26,084,713**	**(247,748)**	**(0.9%)**

The biggest change in the liabilities was recorded in liabilities towards banks which decreased by PLN 2.3 billion versus the end of 2013. Customer liabilities remained stable following the growth of the deposits of the financial sector customers and the decrease of the deposits of the non-financial sector decreased. This drop was seasonal and it was due to lower balances on current accounts of corporate customers as compared to the high base at the end of 2013. At the same time, for another quarter in the row, individual customers' deposits went up (PLN +0.5 billion or 6.6% versus the end of 2013) with an increase reported for both current accounts and term deposits.

2.2.3 Source and use of funds

PLN'000	30 Jun 2014	31 Dec 2013
Source of funds		
Banks	4,051,384	6,378,436
Customers	26,299,341	26,568,765
Own funds including net income	6,932,594	7,307,264
Other	8,091,224	5,143,924
Total source of funds	**45,374,543**	**45,398,389**
Use of funds		
Amounts due from banks	4,628,034	3,539,927
Amounts due from customers	16,999,632	15,231,327
Securities, shares and other financial assets	19,869,967	23,390,964
Other	3,876,910	3,236,171
Total use of funds	**45,374,543**	**45,398,389**

2.3 Equity and the capital adequacy ratio

The value of the Group's equity (excluding net profit) as of June 30, 2014 grew by PLN 84.1 million (i.e. 1.3%) compared to the end of 2013. The growth was driven by the revaluation reserve of the portfolio of investment debt securities (+PLN 45.9 million) and the reserve capital (+PLN 39.2 million).

Equity*

	As of		Change	
PLN'000	30 Jun 2014	31 Dec 2013	PLN'000	%
Ordinary shares	522,638	522,638	-	-
Share premium	3,000,298	2,997,759	2,539	0.1%
Reserve capital	2,374,496	2,335,307	39,189	1.7%
Revaluation reserve	2,964	(42,963)	45,927	-
General risk reserve	521,000	521,000	-	-
Other equity	(2,701)	815	(3,516)	-
Total equity	**6,418,695**	**6,334,556**	**84,139**	**1.3%**

** Equity net of net profit.*

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

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

Capital adequacy ratio*

	PLN'000	30 Jun 2014	31 Dec 2013
I	**Tier I capital, after deductions**	**4,907,379**	**4,908,707**
II	**Total capital requirements, including:**	**2,315,271**	**2,246,769**
	credit risk capital requirements	1,644,185	1,535,628
	counterparty risk capital requirements	78,480	80,127
	credit valuation capital requirements	52,731	-
	excess concentration and large exposures risks capital requirements	88,163	95,500
	total market risk capital requirements	88,942	156,778
	operational risk capital requirements	350,484	363,336
	other capital requirements	12,286	15,400
	Tier I capital ratio (I/(II*12,5))	**17.0%**	**17.5%**

**Capital Adequacy Ratio was calculated according to the rules applicable in the given reporting period, respectively as of June 30, 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).*

As of June 30, 2014 the Group's capital adequacy ratio stood at 17.0% and was by 0.5 p.p. lower than at the end of 2013. This resulted from a minor increase in total capital requirement (+3%) due to growing lending exposure and switch to Basel III methodology. The own funds of the Group remained virtually unchanged.

2.4 Earnings guidance for 2014

The Bank as the parent entity did not publish earnings guidance for 2014.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2014

1. Lending and other risk exposures

1.1 Lending

The Group's credit policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis in client's industry Furthermore, each borrower is monitored on an ongoing basis to early detect any signals of deteriorating creditability and to implement prompt corrective actions. In the first half of 2014, the Group continued to optimize its credit process and adjusted its credit offer to the actual needs of customers and the current situation in the market. The consumer credit portfolio is managed with risk management models measuring risk and profitability of the individual loan groups within the portfolio. The information from the Credit Information Bureau (BIK) is used in the credit risk and scorecard analysis in the Consumer Bank.

Gross receivables to customers

PLN'000	As at		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Receivables in PLN	15,133,890	13,393,843	1,740,047	13.0%
Receivables in foreign currency	2,795,629	2,821,517	(25,888)	(0.9%)
Total	**17,929,519**	**16,215,360**	**1,714,159**	**10.6%**
Receivables from non-financial sector entities	16,692,012	15,480,766	1,211,246	7.8%
Receivables from financial sector entities	1,237,507	734,594	502,913	68.5%
Total	**17,929,519**	**16,215,360**	**1,714,159**	**10.6%**
Non-banking financial institutions	1,237,507	734,594	502,913	68.5%
Non-financial sector entities	10,414,272	9,503,087	911,185	9.6%
Individuals	6,137,325	5,819,087	318,238	5.5%
Public sector entities	139,827	157,909	(18,082)	(11.5%)
Non-commercial institutions	588	683	(95)	(13.9%)
Total	**17,929,519**	**16,215,360**	**1,714,159**	**10.6%**

As of 30 June 2014, gross receivables from customers amounted to PLN 17.9 billion, increasing by 10.6% in comparison to the figure as of December 31, 2013. The biggest part of the non-banking loan portfolio are loans to non-financial entities, which increased by 9.6% in the first half of 2014. There was a considerable growth in receivables from non-banking financial institutions by PLN 0.5 billion to PLN 1.2 billion (from 0.7 billion at the end of 2013). Loans to individuals increased compared to the year-end 2013 by PLN 0.3 billion, i.e. 5.5%, to PLN 6.1 billion.

The loans currency structure as of June 30, 2014 changed slightly as compared to the end of 2013. The share of foreign currency loans as of June 30, 2014 was slightly lower than at the end of 2013 and amounted to 15.6%. It must be noted that the Group extends loans mainly in PLN, while FX loans are offered to corporate clients, who are able – in the opinion of the Group – to bear the foreign exchange risk without impacting their financial condition.

The Group monitors the concentration of its exposures on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. At the end of June 2014, the credit exposure of the Group to non-banking sector was within the legal lending limit.

Concentration of exposures – non-bank clients

PLN'000	30 Jun 2014			31 Dec 2013		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 1	4	953,804	953,808	43,427	966,055	1,009,482
CLIENT 2	716,500	200,050	916,550	716,500	200,050	916,550
GROUP 3	245,938	475,733	721,671	157,436	575,257	732,693
GROUP 4	388,260	270,418	658,678	420,819	218,212	639,031
GROUP 5	574,695	74,765	649,460	412,479	169,411	581,890
CLIENT 6	550,000	-	550,000	250,000	300,000	550,000
GROUP 7	208,236	291,849	500,085	360,239	139,846	500,085
CLIENT 8	-	500,051	500,051	-	500,051	500,051
GROUP 9	325,760	169,818	495,578	323,687	174,815	498,502
CLIENT 10	450,000	-	450,000	-	-	-
Total 10	**3,459,393**	**2,936,488**	**6,395,881**	**2,684,587**	**3,243,697**	**5,928,284**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries *

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	30 Jun 2014		31 Dec 2013	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	3,988,353	17.8%	4,026,214	18.7%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,538,300	11.3%	2,537,891	11.8%
Financial services, excluding insurance and pension funds	2,342,504	10.4%	2,182,495	10.1%
Retail trade, excluding retail trade in vehicles	1,511,483	6.7%	1,297,340	6.0%
Production of food and beverages	1,256,722	5.6%	1,242,203	5.8%
Production and processing of coke and petroleum products	905,269	4.0%	903,130	4.2%
Public administration and national defence; compulsory social security	673,754	3.0%	674,291	3.1%
Stock-keeping and transport supporting services	596,035	2.7%	165,351	0.7%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	563,335	2.5%	551,562	2.6%
Plastic and rubber production	556,650	2.5%	407,024	1.9%
Top 10 business sectors	**14,932,405**	**66.5%**	**13,987,501**	**64.9%**
Mining of metal ores	500,000	2.2%	500,000	2.3%
Wholesale and retail trade of cars; repair of motor vehicles	498,151	2.2%	672,524	3.1%
Production of metal goods, excluding machines and equipment	451,438	2.0%	446,220	2.1%
Building works related to erection of buildings	438,412	2.0%	460,380	2.1%
Non-metallic mineral products' production	419,413	1.9%	361,581	1.7%
Electric machines production	400,342	1.8%	371,546	1.7%
Production of basic pharmaceutical substances, drugs and other pharmaceutical products	364,901	1.6%	430,077	2.0%
Machines and machinery production, not listed elsewhere	351,648	1.6%	364,493	1.7%
Furniture production	351,108	1.6%	336,509	1.6%
Head offices' activities, management advisory	295,504	1.3%	266,500	1.2%
Top 20 business sectors	**19,003,322**	**84.7%**	**18,197,331**	**84.4%**
Other sectors	**3,421,915**	**15.3%**	**3,320,557**	**15.6%**
Total	**22,425,237**	**100.0%**	**21,517,888**	**100.0%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks).*

1.2 Loan portfolio quality

All of the Group's receivables are classified in two portfolios depending on the existing risk of their impairment: the portfolio without impairment and the portfolio with recognized impairment. Depending on the materiality of the exposure and their management, the impaired portfolio is then classified as assessed individually or collectively.

Loans to customers by portfolio with/without recognized impairment

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Loans without recognized impairment, including:	16,811,182	14,983,311	1,827,871	12.2%
non-financial sector entities	15,592,671	14,267,713	1,324,958	9.3%
corporate clients*	10,050,346	9,093,770	956,576	10.5%
individual customers	5,542,325	5,173,943	368,382	7.1%
Loans with recognized impairment, including:	1,024,740	1,135,085	(110,345)	(9.7%)
non-financial sector entities	1,005,744	1,116,089	(110,345)	(9.9%)
corporate clients*	410,744	470,945	(60,201)	(12.8%)
individual customers	595,000	645,144	(50,144)	(7.8%)
Amounts due from matured transactions in derivative instruments	93,597	96,964	(3,367)	(3.5%)
Total gross loans to customers, including:	**17,929,519**	**16,215,360**	**1,714,159**	**10.6%**
non-financial sector entities	16,598,415	15,383,802	1,214,613	7.9%
corporate clients*	10,461,090	9,564,715	896,375	9.4%
individual customers	6,137,325	5,819,087	318,238	5.5%
Impairment, including:	**(929,887)**	**(984,033)**	**54,146**	**(5.5%)**
Amounts due from matured transactions in derivative instruments	(81,319)	(81,556)	237	(0.3%)
Total net amounts due from customers	**16,999,632**	**15,231,327**	**1,768,305**	**11.6%**
Impairment provisions coverage ratio**	**82.8%**	**79.5%**		
corporate clients*	82.1%	73.8%		
individual customers	82.7%	83.1%		
Non-performing loans ratio (NPL)	**5.8%**	**7.0%**		

** Corporate clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households.*

*** Including IBNR provision.*

In the first half of 2014 the impairment provision coverage ratio increased by 3.3 p.p. compared to the end of 2013 and reached 82.8%.

Compared to the year-end of 2013, the non-performing loans ratio fell to 5.8% of the gross customer receivables portfolio as of June 30, 2014.

As of June 30, 2014 the impairment of the portfolio was PLN 929.9 million, which represented a drop of PLN 54.1 million (i.e. 5.5%) compared to the end of 2013. The drop in impairment compared to the year-end of 2013 was recorded mainly in the collectively assessed portfolio: PLN -41.2 million, i.e. 7.9% and in the portfolio without recognized impairment: PLN -9.5 million, i.e. 10.9%. Impairment in the individually significant portfolio also recorded a decrease of PLN 3.5 million i.e. by 0.9%, as compared to December 31, 2013.

Impairment of the customer loan portfolio

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Impairment due to incurred but not reported (IBNR) losses	77,571	87,095	(9,524)	(10.9%)
Impairment of receivables	852,316	896,938	(44,622)	(5.0%)
classifiable (individual assessment)	370,696	374,159	(3,463)	(0.9%)
delinquency managed (portfolio assessment)	481,620	522,779	(41,159)	(7.9%)
Total impairment	**929,887**	**984,033**	**(54,146)**	**(5.5%)**
Impairment provison coverage ratio (on total receivables)	**5.2%**	**6.1%**		

The Management Board believes that impairment provisions represent the best estimate of the actual impairment of the portfolio, taking into account the discounted forecast of future cash flows of the receivables' repayment.

1.3 Contingent liabilities

As of June 30, 2014 the Group's off-balance sheet exposure amounted to PLN 15.6 billion, decreasing by PLN 0.3 billion (i.e. 1.6%) from the figure reported at the end of 2013. The decrease was mainly driven by reverse repo transactions with future currency date which are presented as 'Other' in the below table.

Contingent off-balance sheet liabilities granted

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Guarantees	1,700,715	1,775,108	(74,393)	(4.2%)
Import letters of credit issued	205,599	135,060	70,539	52.2%
Export letters of credit confirmed	3,014	2,509	505	20.1%
Credit commitments	12,205,824	12,199,651	6,173	0.1%
Securities issuance guarantees granted to other issuers	1,473,050	1,508,050	(35,000)	(2.3%)
Other	58,427	280,761	(222,334)	(79.2%)
Total	**15,646,629**	**15,901,139**	**(254,510)**	**(1.6%)**
Provisions for contingent liabilities granted	12,014	13,150	(1,136)	(8.6%)
Provisions coverage ratio	0.08%	0.08%		

The total value of collateral securing borrower's accounts or assets was PLN 2,674 million as of June 30, 2014 and PLN 2,516 million as of December 31, 2013.

In the first half of 2014 the Group issued 4,598 enforcement titles for the total amount of PLN 64.9 million, while in the first half of 2013 it issued 5,797 enforcement titles for the total amount of PLN 120.2 million.

At the end of the first half of 2014 the total value of guarantees or sureties issued by the Bank or its subsidiary to one entity or its subsidiary was not higher than 10% of the Group's equity.

2. External funding

At the end of June 2014 the total value of external funding of the Group obtained from banks reached PLN 4.1 billion, i.e. it was lower by PLN 2.3 billion (i.e. 36.5%) compared to the end of December 2013. The decrease was driven mainly by liabilities due to securities sold under repurchase agreements and term deposits.

The external funding from customers stood at PLN 26.3 billion at the end of the first half of 2014, down by PLN 0.3 billion, i.e. 1. from the seasonally high deposit base at the end of a year. This seasonality is observed for deposits of public sector and corporate clients which usually grow by the end of the year. On the other hand, deposits of individual clients remained in an upward trend (up by PLN 0.5 billion, i.e. 6.6% versus December 31, 2013). The growth was also recorded for deposits of financial sector entities (increase by PLN 1.4 billion, i.e. 41.6%)

Funding from banks

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Current accounts	1,087,820	861,508	226,312	26.3%
Term deposits	2,225,117	3,356,503	(1,131,386)	(33.7%)
Loans and advances received	418,473	374,898	43,575	11.6%
Liabilities due to sold securities under repurchase agreements	273,250	1,783,602	(1,510,352)	(84.7%)
Other liabilities	46,724	1,925	44,799	-
Total funding from banks	**4,051,384**	**6,378,436**	**(2,327,052)**	**(36.5%)**

Funding from customers

PLN'000	As of		Change	
	30 Jun 2014	31 Dec 2013	PLN'000	%
Deposits from financial sector entities				
Current accounts	349,663	320,634	29,029	9.1%
Term deposits	4,266,717	2,939,233	1,327,484	45.2%
	4,616,380	**3,259,867**	**1,356,513**	**41.6%**
Deposits from non-financial sector entities				
Current accounts, including:	15,402,483	16,983,122	(1,580,639)	(9.3%)
corporate customers	7,326,516	7,703,769	(377,253)	(4.9%)
individual customers	6,135,953	5,931,907	204,046	3.4%
public sector units	1,940,014	3,347,446	(1,407,432)	(42.0%)
Term deposits, including:	5,818,102	5,841,724	(23,622)	(0.4%)
corporate customers	3,886,576	4,649,633	(763,057)	(16.4%)
individual customers	1,230,191	975,276	254,915	26.1%
public sector units	701,335	216,815	484,520	223.5%
	21,220,585	**22,824,846**	**(1,604,261)**	**(7.0%)**
Total deposits	**25,836,965**	**26,084,713**	**(247,748)**	**(0.9%)**
Other liabilities				
Liabilities due to securities sold under repurchase agreements	304,138	352,153	(48,015)	(13.6%)
Other liabilities, including:	158,238	131,899	26,339	20.0%
Cash collateral	101,916	101,646	270	0.3%
Other liabilities, total	**462,376**	**484,052**	**(21,676)**	**(4.5%)**
Total amounts due to customers	**26,299,341**	**26,568,765**	**(269,424)**	**(1.0%)**

3. Corporate Bank

3.1 Segment results summary

PLN'000	1st half of 2014	1st half of 2013	Change	
			PLN'000	%
Net interest income	268,660	298,207	(29,547)	(9.9%)
Net fee and commission income	142,020	158,040	(16,020)	(10.1%)
Dividend income	2,114	1,294	820	63.4%
Net income on trading financial instruments and revaluation	215,920	221,365	(5,445)	(2.5%)
Net gain on investment debt securities	105,288	253,298	(148,010)	(58.4%)
Net gain on investment equity instruments	2,855	1,844	1,011	54.8%
Net loss on hedge accounting	(709)	-	(709)	-
Net other operating income	19,913	19,749	164	0.8%
Total income	**756,061**	**953,797**	**(197,736)**	**(20.7%)**
General administrative expenses and depreciation	(277,572)	(304,211)	26,639	(8.8%)
Profit on sale of other assets	296	92	204	221.7%
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(1,967)	(20,856)	18,889	(90.6%)
Share in net profits/(losses) of entities valued at equity method	313	(1,366)	1,679	(122.9%)
Profit before tax	**477,131**	**627,456**	**(150,325)**	**(24.0%)**
Cost/Income	**37%**	**32%**		

The profit before tax of the Corporate Bank in the first half of 2014 compared to the first half of 2013 was driven mainly by the following factors:

- decrease of the net interest income mainly due to lower income on available-for-sale debt securities (PLN -26.4 million). The net interest income on transactions with non-financial clients was stable year on year, while net interest income from the financial sector decreased;
- decrease of the net fee and commission income, mainly from the brokerage activity, largely due to lower income from the brokerage activity (PLN -13.9 million, i.e. 26.7%), which was boosted in the first half of 2013 by commissions on major transactions on the capital market. On the other hand, the net fee and commission income on custody services increased (PLN +4.6 million, i.e. 9.3%);
- the net income on trade financial instruments and revaluation decreased modestly both on the Bank's transactions with clients and interbank market operations;
- net income on investment debt securities at PLN 105.3 million in the first half of 2014 compared to a record-high net income of PLN 253.3 million generated in the first half of 2013;
- decrease of operating costs mainly owed to reduced staff expenses following the workforce restructuring process initiated in October 2013 and, to a lesser extent, lower spending on technology;
- decrease in net impairment losses by PLN 18.9 million, i.e. 90.6%, due to improved quality of the credit portfolio in the MME and SME segments.

3.2 Corporate and Investment Bank and the Capital Markets

3.2.1 Corporate and Commercial Bank

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

The number of corporate clients (including strategic customers, global clients and corporate clients) was 7,400 at the end of the first half of 2014, a decrease of 3% compared to the first half of 2013, when the number was 7,700. In the Commercial Bank covering small and medium-sized enterprises (SMEs), middle-market enterprises (MMEs) and the public sector, the Bank served 5,300 clients at the end of the first half of 2014, a decrease of 5% compared to 5,600 clients served at the end of the first half of 2013.

What corporate banking clients have in common is their demand for advanced financial products and advisory in financial services. In this area, the Bank provides coordination of the offered investment banking, treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovative, competitive and modern financing structures on offer rely on a combination of the 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 according to the management reporting format.

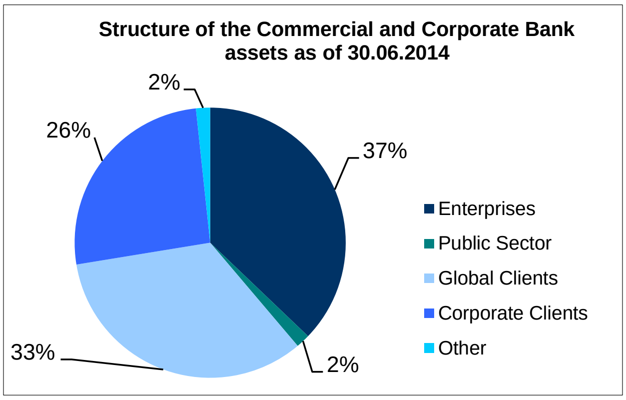
Assets

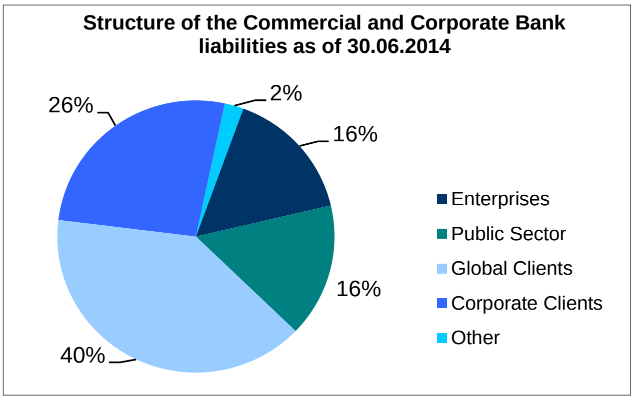
PLN million	30 Jun 2014	31 Dec 2013	30 Jun 2013	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises*, including:	4,111	3,403	3,390	708	21%	721	21%
SMEs	1,820	1,611	1,567	209	13%	253	16%
MMEs	2,291	1,792	1,823	499	28%	468	26%
Public Sector	185	210	136	(25)	(12%)	49	36%
Global Clients	3,715	3,655	4,135	60	2%	(420)	(10%)
Corporate Clients	2,866	2,730	2,311	136	5%	555	24%
Other**	186	178	264	8	4%	(78)	(30%)
Total Corporate and Commercial Bank	**11,063**	**10,176**	**10,236**	**887**	**9%**	**827**	**8%**

Liabilities

PLN million	30 Jun 2014	31 Dec 2013	30 Jun 2013	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises*, including:	2,906	3,331	2,928	(425)	(13%)	(22)	(1%)
SMEs	2,110	2,384	2,097	(274)	(11%)	13	1%
MMEs	796	947	831	(151)	(16%)	(35)	(4%)
Public Sector	2,925	3,848	2,537	(923)	(24%)	388	15%
Global Clients	7,316	7,845	6,841	(529)	(7%)	475	7%
Corporate Clients	4,863	3,404	3,924	1,459	43%	939	24%
Other**	405	66	90	339	514%	315	350%
Total Corporate and Commercial Bank	**18,415**	**18,494**	**16,320**	**(79)**	**(0%)**	**2,095**	**13%**

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).*
*** 'Other' includes, among others, clients under restructuring and clients of Handlowy Leasing Sp. z o.o. who are not clients of the Bank.*





<u>Key transactions and successes of the Corporate and Commercial Bank in the first half of 2014:</u>

- In the first half of 2014, the Bank closed among others the following transactions with Strategic Clients and Global Clients:
  - The Bank arranged bond financing for a company held by the State Treasury and took up a major amount of the bonds (PLN 450 million);
  - As part of a syndicate, the Bank participated in the financing of current debt at EUR 2 billion of the client operating in the fuel sector. The share of Citi Handlowy in the financing was EUR 100 million;
  - In June 2014, the Bank signed a mandate to conclude a non-secured revolving facility agreement as part of a syndicate for the client from the mining sector; the total amount of financing was USD 2.5 billion; the deal was closed in July 2014;
  - The Bank organized a 3-year bond issue for a financial client at PLN 1.4 billion;
  - The Bank disbursed a long-term 2-year credit facility at PLN 300 million for a company from the retail sector;
  - The Bank arranged a 6-year syndicated guarantee of PLN 180 million for an energy project worth PLN 4 billion. The share of Citi Handlowy in the guarantee was 50%;
  - The Bank disbursed an additional tranche of a credit facility at PLN 50 million for a FMCG client;
  - The Bank financed invoice discounting for a major construction company at PLN 13 million with a prospect of increase to PLN 40 million;
  - The Bank arranged and completed securitization of car loans and cash loans portfolio for a Polish bank;
- In the first half of 2014, the Bank closed among others the following transactions with clients of the Commercial Bank:

  - PLN 98 million investment loan for a producer of power switchgear and control gear; PLN 53 million payment credit for a manufacturer of plastic products; PLN 68 million reverse factoring and PLN 14 million payment credit for a capital group operating in the food industry; PLN 38.7 million long-term loan for a wholesaler of electronic and telecommunication equipment; PLN 30 million investment loan for a producer of plastic containers; PLN 28 million revolving loan for a producer of distilled alcoholic beverages and beer; PLN 20 million letter of credit for a car parts distributor; PLN 20.7 million investment loan for an organizer of fairs, exhibitions and conferences; PLN 20 million investment loan for a producer of textiles; PLN 16 million investment loan, PLN 8 million long-term loan and PLN 2.3 million secured overdraft for a producer of motor vehicle parts and accessories; PLN 15 million trade credit and PLN 5 million secured overdraft for a railroad engineering company.

- Customer acquisition:
  - In the first half of 2014, the Bank acquired 207 clients of the Commercial Bank, i.e. 28 Large Enterprises, 157 Small and Medium-sized Enterprises, and 22 Public Sector Clients including:
    - Polskie Radio S.A., a client acquired in a tender closed in April 2014. As of 1 July 2014 for a period of three years, the Bank provides banking services including an overdraft limit of PLN 20 million;
    - Telewizja Polska S.A., acquired in a closed tender for opening and maintenance of a current account for 5 years, including a revolving overdraft facility in the form of a credit line for multiple purposes up to PLN 70 million. The solutions offered include net balance.
  - The Bank acquired 14 customer relations with Strategic Clients (3 relations) and Global Clients (11 relations) including:
    - new relation with a leader of the Polish LPG market leader which is to include domestic and international transactions and currency exchange including forward transactions as well as finance;
    - supplier finance agreement with a key logistic client.

3.2.2 Treasury achievements

- In the first half of 2014, the Bank maintained a strong position in the market of foreign exchange transactions with corporate clients and the volume of foreign exchange transactions increasing by 15% year on year.

- This increase covered both standard transactions and those executed on the Citi FX Pulse platform, which accounts for ca. 70% of all transactions. This confirms that the solutions offered by the Bank to invest funds and to manage FX positions meet the expectations of the most demanding clients in that area.

- In February 2014, Citi Handlowy once again received the Treasury BondSpot Poland award for its activity in fixing sessions and for the highest turnover in 2013.

- According to the “Rating & Market” report by Fitch Ratings, the Bank had an 18% market share as an arranger of issues of bonds and certificates of deposit for banks and maintained a leading position in this market segment at the end of June 2014.

- In the first half of 2014, the Bank remained a leader of the overall ranking in a competition organized by the Ministry of Finance to select the Treasury Securities Dealer for 2014.

3.2.3 Transaction services

The Bank is a leading provider of transaction banking services in Poland. The transaction banking offer includes the following products and services:

- Cash management products: deposits and current accounts, liquidity management products, MicroDeposits and e-banking;

- Cards;

- Payment and receivable processing: Direct Debit and Speedcollect;

- Cash products;

- EU-oriented advisory services;
- Trade finance products.

A strategic direction of development for the Bank is to establish closer relations with Poland's biggest companies and industry leaders in order for Citi Handlowy to become their bank of choice. The extensive offer of transactional services provides the Bank's key clients with comprehensive service: from liquidity management in groups of companies, through payment and receivable processing, to Supplier Finance and Channel Finance.

Deposits and current accounts

A current account enables its holder to access the full product range offered by the Bank. A key element of the Bank's strategy is its focus on acquiring and serving operating accounts: bank accounts used to process the key operating cash flows of account holders.

Excess funds accumulated by a client in a current account, i.e. funds that are not required to finance day-to-day operations, may be invested in term deposits. In addition to term deposits, the Bank sells negotiated deposits, automatic deposits and blocked deposits.

Liquidity management products

Liquidity management structures are advanced instruments that optimize cash flows for a single client or within a capital group. The liquidity management products offered by the Bank make it possible to ensure optimized management of excess cash generated by overly liquid companies to allocate it to entities with an increased demand for capital. The Bank's liquidity management products include:

- zero-balancing cash pooling;
- notional cash pooling;
- net balance.

These liquidity management structures can reduce the overall debt and its servicing costs at no liquidity risk.

MicroDeposits

MicroDeposits are used by institutions and entities that accept cash deposits from various payers and are obliged to return them together with accrued interest. The Bank's clients who use the product mainly include courts and prosecutors.

The number of institutions which use the Bank's solution increased by 5% in the first half of 2014. It should be noted that institutions served by the Bank are market leaders in terms of the amounts of deposits. According to estimates, MicroDeposits with the Bank represent 50% of the market volume.

Furthermore, in the first half of 2014, the Bank initiated close co-operation with clients in order to migrate deposits collected by courts to a new financial and accounting system. A module custom-made according to the requirements of the Ministry of Justice is an integral part of the system. The module uses state-of-the-art technologies available at the Bank including online communication based on WebServices. With such functionalities and thanks to additions to the Bank's offer dedicated to public sector clients, Citi Handlowy has recently acquired several key clients and has become the market leader.

Electronic banking

Key information about electronic banking in the first half of 2014:

- The total number of transactions processed electronically by CitiDirect and CitiDirect EB (*CitiDirect Ewolucja Bankowości*) was nearly 13 million in the first half of 2014;
- The number of corporate clients who are active users of the system remained at the level of ca. 4,500;
- The number of corporate clients activated in the online banking system was 11,400 for CitiDirect and 2,700 for CitiDirect EB at the end of the first half of 2014;

- The number of clients with mobile access to both electronic banking systems was 3,600 at the end of the first half of 2014. Clients processed more than 40,000 transactions totaling more than PLN 2.7 billion via mobile banking in January-June 2014;
- In the first quarter of 2014, the Bank implemented improvements to the CitiDirect electronic banking system module used for file exchange between the Bank and clients;
- Implementation of a new product on the Citi Trade Portal: Supplier Finance. Supplier Finance involves financing granted to suppliers in non-recourse factoring under the buyer's credit line. The Citi Trade Portal supports fully electronic processing of the product, including filing applications with the Bank, and provides feedback on transactions.

Card products

Business cards continue to play a crucial role in the Bank's transaction service offer. Due to the consistently executed strategy along with sales campaign conducted in 2013, the transactional ratios significantly improved: the value of non-cash transactions increased by 6% in the first half of 2014 compared to the first half of 2013, while the number of non-cash transactions increased by 5%. These ratios suggest more active use of card products while their increase year on year is particularly important in view of the reduced interchange fees.

Direct Debit

The Bank provides its clients with comprehensive debit processing. The direct debit market is a segment of such services. In the first half of 2014, the Bank strengthened its position of market leader and processed the biggest number of direct debits as the creditor's bank, crossing the record-high mark of 40% market share.

Speed Collect

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of mass payments. In the first half of 2014, the Bank remained one of the top leaders in Poland's market in terms of volumes of processed transactions. The number of transactions was at a level comparable to the first half of 2013 and the second half of 2013.

Foreign bank transfers

The Bank steadily strengthens its position on the foreign transfer market as demonstrated by a stable 10% growth of the volume of foreign currency transfers year on year. The vast majority of foreign currency transfers are in EUR under SEPA standards. To improve convenience for clients, in the first half of 2014 the Bank implemented dedicated forms which facilitate SEPA transfers. Transactional activity of clients also improves thanks to the competitive products offer based on the Citi Group's global clearing network and a broad range of supported currencies.

Cash products

The Bank offers comprehensive cash services to clients. The biggest volumes of cash transactions processed by the Bank are clients' cash deposits. The vast majority of deposits are made in a closed form. Closed deposits may be delivered to the locations of the Bank and its partner cash processing (sorting) centers.

Cash deposits may be made directly into clients' accounts with the Bank. However, in view of clients' needs for automation of cash deposit management processes and correct identification of deposits originating from different client locations or from different payers, the Bank offers clients the option to make cash deposits into virtual accounts; as a result, information necessary to identify deposits is included directly in the account number, which minimizes the risk of incorrect (unidentified) payments.

The volume of cash in a closed form processed by the Bank increased by 3% compared to the first half of 2013.

In addition to cash deposits, clients of the Bank also use cash withdrawals, both traditional withdrawals at the counter and collection of sealed cash packages.

The Bank also provides services targeting a more narrow group of clients, including substitute cashier service and substitute branch service addressed to the public sector. Providing i.e. purchase and sale of banknotes and coins for other banks is also increasingly popular.

EU-oriented advisory services

In the first half of 2014, the EU Office prepared the Bank's strategy for the new financial perspective 2014-2010 where banks will be important partners in the distribution of European funds and in financing of investments co-financed with subsidies.

Furthermore, in the first half of 2014, the EU Office performed functions related to an agreement signed by the Bank with Kreditanstalt für Wiederaufbau concerning distribution of funds under energy efficiency programs among local government units and small and medium-sized enterprises. In the first half of 2014, the Bank signed energy credit contracts in an aggregate amount of PLN 62.7 million.

Trade finance products

In the first half of 2014, the Bank continued the strategy of trade finance development both in the Corporate Bank and in the Commercial Bank. The value of assets booked under trade finance products at the end of the first half of 2014 was 17% higher than at the end of the first half of 2013.

As an important part of developing the Bank's offer and strengthening its position in trade finance services, another module of the Citi Trade Portal was launched to support the processing of export letters or credit and documentary collections. As a result, all documentary products including export and import letters of credit, bank guarantees and collections are supported by the advanced electronic platform.

The key trade finance transactions in the first half of 2014 include:

- winning a tender for a PLN 90 million long-term bank guarantee for a major construction company;
- discounting receivables in the fuel sector at PLN 574 million;
- co-operation with the Citigroup in oil supplier finance in an aggregate amount of PLN 389 million;
- launch of new FMCG receivables discounting programs in an aggregate amount of PLN 115 million.

3.2.4 Custody services

The Bank holds the leading position among the custodian banks in Poland. It offers custody services both to foreign institutional investors and domestic financial entities, in particular pension funds, investment funds and unit-linked insurance plans.

As part of its statutory activities, carried out under a permit from the Securities and Exchanges Commission (now the Polish Financial Supervision Authority), the Bank operates securities accounts, collective accounts, clears securities trades, effects dividend and interest payments, performs asset portfolio valuations, provides individual reports, and arranges representation of clients at general shareholders' meetings of listed companies. The Bank also maintains a register of foreign securities, including intermediary services to clear transactions of domestic clients in foreign markets.

In the reporting period, the Bank maintained its position of market leader in clearing securities transactions executed for the benefit of remote members of the Warsaw Stock Exchange and BondSpot S.A. In addition, the Bank participated in the settlement of transactions closed by institutional clients on the electronic debt securities trading platform Treasury BondSpot Poland organized by BondSpot S.A.

As of June 30, 2014, the Bank maintained over 13,500 securities accounts.

At the same time, the Bank was the custodian for five open pension funds (OFE): Amplico OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE, Nordea OFE; five voluntary pension funds (DFE): MetLife Amplico DFE, Nordea DFE, Generali DFE, ING DFE, DFE Pekao; and two employee pension funds: Pracowniczy Fundusz Emerytalny PZU "Słoneczna Jesień" and Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A.

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

3.2.5 Brokerage activities

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

In the first half of 2014, DMBH acted as a broker in session transactions representing 13.9% of equity trading volume on the secondary market 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) amounted to PLN 29.8 billion, an increase of 6% YoY, while trading volume on the WSE decreased by 4% YoY.

The activity of individual clients using the new transactional platform CitiFX Pro increased significantly in the first half of 2014. 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 leverage. The functionalities which are very popular with clients include the option of transferring and actively managing held portfolios of foreign stocks. Furthermore, foreign currency accounts are now on offer and allow clients to use available cash in foreign currencies for investments without currency conversion, which mitigates the FX risk of foreign investments.

DMBH maintained 9,400 investment accounts at the end of the first half of 2014, an increase of 7.6% compared to the first half of 2013. The number of accounts increased due to a steady growth in the number of brokerage service agreements for forex and foreign financial instruments on the CitiFX Pro platform.

At the end of the first half of 2014, DMBH was the market maker for 19 companies listed on the Warsaw Stock Exchange and for futures on stocks of the most liquid companies, being thus one of the most active market makers on the Warsaw Stock Exchange in the first half of 2014.

The weaker conditions on the domestic IPO market largely impacted the activity of DMBH in this area. In the first half of 2014, DMBH closed the following deals on the capital market:

- Legg Mason Akcji Skoncentrowany FIZ – DMBH was the Offering Broker in the public offer of PLN 7.7 million Series E Investment Certificate (March 2014);
- Alior Bank S.A. – DMBH was the Sole Bookrunner in an accelerated sale of a PLN 101 million stake held by LuxCo 82 s.a.r.l (March 2014);
- Talanx AG – DMBH was the investment firm intermediary in the admission of the company's share to trading on the Warsaw Stock Exchange (April 2014);
- BNP Paribas Bank Polska S.A. – DMBH was the Sole Coordinator, Joint Bookrunner and Offering Broker in the PLN 231 million secondary public offering (May 2014).

Summarized financial data as of June 30, 2014*

Company	Headquarter	% of authorized capital held by the Bank %	Total assets 30 Jun 2014 PLN'000	Total equity 30 Jun 2014 PLN'000	Net financial result for the period of 1 Jan – 30 Jun 2014 PLN'000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	671,625	102,126	10,994

** Unaudited data*

3.2.6 Leasing activities

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 financial data as of June 30, 2014*

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2014	Total equity 30 Jun 2014	Net financial result for the period of 1 Jan – 30 Jun 2014
		%	PLN'000	PLN'000	PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	297,612	137,554	2,355

** Unaudited data*

4. Consumer Bank

4.1 Segment results summary

PLN'000	1st half of 2014	1st half of 2013	Change	
			PLN'000	%
Net interest income	326,544	339,422	(12,878)	(3.8%)
Net fee and commission income	182,107	170,720	11,387	6.7%
Dividend income	3,568	2,931	637	21.7%
Net income on trading financial instruments and revaluation	15,405	16,488	(1,083)	(6.6%)
Net other operating income	(12,046)	(9,974)	(2,072)	20.8%
Total income	**515,578**	**519,587**	**(4,009)**	**(0.8%)**
General administrative expenses and depreciation	(365,194)	(371,477)	6,283	(1.7%)
Profit/loss on sale of non-financial assets	1	70	(69)	(98.6%)
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(30)	39,584	(39,614)	-
Profit before tax	**150,355**	**187,764**	**(37,409)**	**(19.9%)**
Cost/Income	**71%**	**71%**		

The main factors that determined gross profit of Consumer Bank in the first half of 2014 compared to the corresponding period of 2013 were:

- decrease of interest income as a result of reduced interest rates on credit cards (in total by 3 percentage points on average in the first half of 2014 compared to the first half of 2013) following changes of market interest rates, partly offset by growing sales of instalment products addressed to credit cards' holders and reduced interest expenses. The latter was achieved despite a significant increase in deposit volumes (+9% YoY) and it was driven by a reduction of interest rates which were brought in line with the market rates (interest rates were reduced mainly for savings accounts and deposits), as well as by a positive change in the structure of the deposit portfolio (growing share of current deposits and decreasing share of term deposits);

- increase of the net fee and commission income driven by growing sales of structured investment products and growing sales of instalment products addressed to credit cards' holders (record-high sales in the first half of 2014) as well as growing volumes of transactions with payment cards;

- decrease of operating expenses as a result of restructuring; some of the generated savings were reinvested in technology;

- net impairment losses on financial assets and provisions for financial and guarantee liabilities at PLN 0.03 million as a result of stabilization of the quality of the unsecured receivables portfolio. In the first half of 2013, there was a reversal of net impairment losses on financial assets of PLN 39.6 million which included PLN 23.3 million from the sale of a part of retail impaired exposures realized in the second quarter of 2013.

4.2 Selected business data

'000	1st half of 2014	1st half of 2013	Change	
Number of individual customers	771.5	845.3	(73.8)	(8.7%)
Number of current accounts, including:	511.2	585.5	(74.3)	(12.7%)
number of operating accounts	149.1	177.6	(28.5)	(16.0%)
Number of operating accounts acquired in the period	33.3	33.4	(0.1)	(0.4%)
Number of savings accounts	178.8	197.1	(18.2)	(9.2%)
Number of credit cards, including:	760.3	791.2	(30.9)	(3.9%)
co-branded cards	453.8	471.6	(17.8)	(3.8%)
Number of active credit cards	680.8	712.4	(31.5)	(4.4%)
Number of debit cards, including:	335.5	454.0	(118.5)	(26.1%)
PayPass cards	312.0	413.4	(101.4)	(24.5%)

Receivables from individual clients – management view

PLN '000	30.06.2014	31.12.2013	30.06.2013	Change YTD		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	4,502,548	4,215,081	4,235,691	287,467	6.8%	266,857	6.3%
Credit cards	2,064,394	1,986,860	1,941,797	77,534	3.9%	122,597	6.3%
Cash loans	2,358,723	2,154,691	2,222,512	204,032	9.5%	136,211	6.1%
Other unsecured receivables	79,431	73,530	71,382	5,901	8.0%	8,049	11.3%
Mortgage loans	1,142,686	1,068,199	1,008,001	74,487	7.0%	134,685	13.4%
Total net individual clients' receivables	**5,645,234**	**5,283,280**	**5,243,692**	**361,954**	**6.9%**	**401,542**	**7.7%**

4.3 Business highlights

Bank accounts

- **Current accounts**

The number of individual current accounts totaled over 511 thousand at the end of the first half of 2014 (versus 585 thousand in a prior year period), including 330 thousand PLN current accounts and 181 thousand foreign currency accounts. The total current account balance was over PLN 2.9 billion versus PLN 2.5 billion reported a year ago.

- **Savings accounts**

There were 179 thousand savings accounts with a total balance of PLN 3.2 billion at the end of the first half of 2014 compared to 197 thousand savings accounts with a total balance of PLN 3.3 billion in a prior year period.

- **Changes in the offer**

The Bank continued to concentrate its acquisition efforts around affluent customers through the following activities: online marketing campaigns, acquisition campaigns, promotional offers for deposits and funds held in savings account, as well as the CitiGold Recommendation Program. As a result, the number of CitiGold clients grew by 14% and versus the year ago period. Several modifications introduced to the pricing model in January 2014 reaffirmed the Bank's commitment to serve affluent customers. In order to meet the fee-free CitiGold account eligibility criteria, additionally to having their bank account credited with a minimum of PLN 12,000 per month, customers must maintain a minimum balance of PLN 50,000.

Further enhancing global value for customers, the bank launched the GBP and USD payments – customers can now pay for their purchases from their GBP and USD bank accounts with no currency conversion costs. Customers with EUR accounts have been able to make such payments since 2008.

Credit cards

There were 760.3 thousand credit cards at the end of the first half of 2014.

As of June 30, 2014, the total credit card balance was PLN 2.1 billion, representing an increase by 3.9% compared to the end of the year and 6.3% YoY.

This translated to further strengthening of the Bank's position in terms of the credit card loans, with a market share of 18.6% as of June 30, 2014. According to the data as of March 31, 2014, the Bank affirmed its leadership position in terms of transaction value with a market share at 23.4%.

In the reported period, the Bank acquired 21% more credit cards than in the year ago period. The best-selling cards included Citibank World MasterCard and Citibank Gold which together constituted 53% of the total card sales. In June 2014, following termination of the cooperation agreement with Wizz Air Hungary Kft, the Citibank Wizz Air World MasterCard was withdrawn from the Bank's offer.

In the first half of 2014 the Bank was actively growing its new distribution channels, concentrating on mobile and online banking platforms.

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

At the end of the first half of 2014, the total balance of the cash loan portfolio amounted to PLN 2.4 billion, up by 9.5% compared to the end of 2013.

The Bank reported a major increase in lending in the first half of 2014, which led to a record high sales result versus the corresponding period of 2013. The total cash loan sales, including cash loans sold to credit card holders amounted to PLN 999.2 million in the first six months of 2014.

In the reported period the Bank focused around optimizing its retail processes to transform into a high-tech, digital retail bank. It enhanced its remote banking platform to offer customers signing the cash loan agreement without leaving their home. At the same time, the Bank implemented several cash loan sales process enhancements through Smart branches.

Mortgage products

In the first half of 2014 the Bank continued to sell mortgage products to target client segments through its internal sales channels.

At the end of the first half of 2014 the total balance of the mortgage portfolio amounted to PLN 1.1 billion, up by 7% compared to the end of 2013 and 13% in YoY terms.

Investment and insurance products

At the end of first half 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 16.2% higher than in the corresponding period of 2013.

The value of the above assets grew by 9.4% throughout the first half of 2014 versus the end of 2013. The growth was primarily driven by investment funds, structured products, dual-currency investments, bonds and insurance products with capital insurance fund annual premium.

In terms of structured products, in the first half of 2014, the Bank completed 32 structured bond subscriptions and 2 investment-linked life insurance subscriptions.

In the first half of 2014, the Bank expanded its dual-currency investment offering by introducing EUR and USD funds.

Additionally, in February 2014 a modified insurance product with capital insurance fund regular premium (The Optimum Pro Investment Plan) was launched to further enhance the offer, for example by introducing a new premium payment model and reducing withdrawal fees.

In June 2014 a new solution was introduced in Citibank Online to help customers manage their money more effectively. The "Portfolio Analysis" report has been launched with a view to ensure that customers have an easy access to information about the products they purchased through Citi Handlowy.

4.4 Online and Mobile Banking

Online Banking

Executing on the digital strategy, the Bank has been actively working to further expand its online banking platform and drive greater traffic to Citbank Online.

The number of active Citibank Online users, i.e. users who accessed Citibank Online at least once for 30 days, totaled over 335 thousand at the end of June 2014, representing an increase by 12% YoY.

At the end of the first half of 2014 Citibank Online active users constituted over 44% of the total customer portfolio of the Bank, representing an increase by 8 p.p. versus the corresponding period of the prior year.

Online acquisition channels play a growing role in the Bank's customer acquisition. The online credit card acquisition increased 124% in the first half of 2014 versus the prior-year period, while 10% of the deposit product acquisition came from online sales.

Online and mobile transactions accounted for 98% of all Bank's transactions, representing an increase by 3 p.p. versus the same period last year.

Two innovative features (online fulfillment) were launched for online banking users in the first half of 2014. Now, customers are able to apply for deposit products and cash loan through Citibank Online without having to visit the branch or send the documents back via courier.

Over the last 6 months the Bank recorded nearly 20 million logins to Citbank Online, over 2 million of which were performed from mobile devices such as tablets and smartphones.

As of June 30, 2014, as many as 84% of all customers of the Bank switched to paperless banking statements. The e-statement service has been actively promoted and a further growth in Citi Handlowy paperless statement users is expected.

Mobile banking

The number of active Citi Mobile users (those who accessed mobile banking at least once for 30 days) was over 56,000 as of June 30, 2014, representing an increase of 50% versus the year-ago period.

The Citi Mobile active users constitute 7.5% of the total Citi Handlowy customer portfolio, representing an increase by 3.5 p.p. versus the same period last year.

In the first half of 2014 the customers of the Bank made over 9 thousand transactions using Fotokasa for the total amount of PLN 1.6 million.

The Citi Handlowy for iPad application available to Apple tablet users recorded over 9.5 thousand downloads since its launch in the third quarter of 2013. 40% of the app users login into the app at least once per month.

4.5 Branch network

Smart Banking Ecosystem

In the first half of 2014, the Bank continued to grow its Smart Banking Ecosystem initiated in September 2013. Following Katowice and Warsaw, next Smart branches were opened in March in the City Center shopping mall in Poznań and in April in Wrocław's Magnolia Park shopping mall.

Smart branches are designed to fit the lifestyle and needs of today's clients – they are located in popular and convenient spots, such as shopping malls, and are open 7 days a week. High-tech devices such as tablets, touch screens or video conference make it possible for the customer needs to be anticipated in advance, providing a remarkable customer experience.

In the first half of 2014 the Smart branch customers were introduced to some next latest technology solutions – using smart interactive media walls they can now compare the Citibank Credit Cards in terms of value proposition and choose the one that best fits their individual needs. Additionally in June 2014, a new functionality was launched that enables customers to withdraw cash in three currencies (PLN, EUR, USD) free of charge. The first multi-currency ATMs of this kind in Poland are already available in the branch at Goleszowska Street and Mokotów Smart branch in Warsaw. Adding the option to choose the currency sub-accounts when applying for a current account online at Smart branch is another revolutionary step towards Citi Handlowy digital transformation.

Changes in the branch network

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

As of June 30, 2014, the Bank's branch network comprised 57 outlets. As part of optimization activities, the Bank closed the operating activity of selected branches in Kraków, Łódź, Poznań, Szczecin, Warsaw and Wrocław.

One of the branches ceased to serve retail customers and currently provides banking products and services only to corporations.

Number of branches and other points of sale / touch points at the end of the period

	30.06.2014 (1)	31.12.2013 (2)	30.06.2013 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**57**	**65**	**85**	**(8)**	**(28)**
HUB Gold	11	11	12	-	(1)
Blue	39	50	71	(11)	(32)
Investment Center	2	2	2	-	-
Smart branch	4	2	-	2	4
Corporate branch	1	-	-	1	1
Other points of sale/touch points:					
Financial agents (Open Finance, Expander and other)	274	274	274	-	-
Airports	5	4	6	1	(1)
Shopping malls and cinemas	52	70	36	(18)	16
Other (BP petrol stations, aquaparks)	20	2	-	18	20
Cash points (Billbird and Brinks)	4	11	13	(7)	(9)
Own ATMs	80	93	113	(13)	(33)

** 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.*

5. Changes in information technology

In the first half of 2014, IT projects were implemented to ensure development of a stable technological platform for the Consumer Bank and the Corporate Bank under the Bank's current strategy and to ensure technology cost reductions while expanding the modern product offer and improving the quality of the services offered. The Bank's IT processes are executed according to recognized standards, as confirmed in February 2014 by a positive outcome of a supervisory compliance audit under ISO 20000 (IT service management), ISO 27001 (information security management) and ISO22301 (business continuity management).

The following solutions were implemented in the first half of 2014:

- reorganization of the Consumer Bank distribution network following the implementation of the Smart Banking Ecosystem model, opening of another two Smart branches (Poznań, Wrocław). The branches apply state-of-the-art technologies and audio-visual solutions (Marketing Wall, Sales Wall, WorkBench, iPads, video communicators, wireless connectivity);
- harmonization of the Bank's systems with regulatory requirements and new European Union Directives;
- further improvement of the electronic platform for trade finance services: the system was adapted to support more products e.g.: Channel Finance with recourse and partial recourse, Factoring with legally limited recourse and to serve large-volume clients;

- improved security of the Bank's ATM network with the implementation of anti-skimming solutions and addition of new functionalities: USD and EUR cash withdrawals at some of the Bank's ATMs;
- implementation of SIP technology in further branches of the Bank which allows for using central telephone lines in Warsaw instead of local lines at a branch in order to optimize the operating support model and telecommunication costs;
- Desktop Optimization Initiative - improved effectiveness, modernization and optimization of the Bank's computer environment.

Pending initiatives and system modifications impacting the Bank’s activity in the coming periods:

- continued development of the modern Consumer Bank distribution network through opening more Smart branches;
- implementation of the integrated risk management system CitiRisk;
- continued development of the electronic platform for finance services in line with business needs;
- modification of the Corporate Bank’s main system Flexcube – replacement of the hardware and database platform;
- implementation of a new version of the Bank’s online platform;
- implementation of a new platform supporting commercial cards for corporate clients ECS+ and a new version of the prepaid card platform Prime/Online;
- replacement of the main system used by the Treasury Division, Kondor+, with eDealer in order to implement new functionalities, reduce development and operating costs and unify platforms with regional partners;
- CitiCash – implementation of a new electronic platform supporting cash products of the Corporate Bank;
- implementation of a state-of-the-art system supporting sales of Consumer Bank products through iPad mobile solutions;
- implementation of the requirements of Recommendation D published by the Polish Financial Supervision Authority in January 2013 to the extent of improving the management of information technology and ICT environment security; the required modifications will be implemented by the end of 2014;
- further harmonization of the Bank’s systems with regulatory requirements including EMIR, FATCA.

6. Equity investments of the Group

All equity investments of the Group are divided into the strategic investment portfolio and the divestment portfolio. In the first half of 2014, the Group continued its earlier policy of equity investments. The guidelines for the strategic portfolio were to maximize profits over a long-term perspective, increase market share, develop cooperation with the Bank and expand the offering of the Group, while the objectives for the investments intended for sale were to optimize results of capital transactions and minimize risk in the related areas.

6.1 Strategic investment portfolio

This portfolio includes companies that run their businesses within financial sector contributing to the Bank’s result on operations, as well as companies for which the Group expands its product offering and which bring prestige to the Group’s operations and strengthen its competitive position in the Polish market of financial services.

Strategic companies also include infrastructure companies providing services for the financial sector, which are not controlled by the Bank, but are of strategic importance for the Bank due to their activities. The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The Bank’s overriding objective in the exercise of its corporate governance prerogatives over these companies is to ensure their stable development and continuation of their present operations which the participants of the financial market, including the Bank, rely on.

6.2 Divestment portfolio

The divestment holdings are entities in which the Bank's investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic objective of the Bank with regard to companies in the divestment portfolio is to gradually reduce the Bank's investment. The assumption is that individual participations will be sold or liquidated whenever market conditions are most favorable. The portfolio of companies intended for sale locks capital without a predetermined rate of return. The Bank is not planning to do any new capital investments which would be sold later. However, the divestment portfolio may grow by possible acquired exposure if the Bank chooses to convert its debt to equity.

7. Other information about the Group

7.1 Awards and honors

In the first half of 2014, the Bank, DMBH and the Leopold Kronenberg Foundation received a number of prestigious awards and honorary titles:

- The UK financial magazine **Euromoney** named Citi Handlowy Poland's best private banking provider. The Bank ranked first in the Super Affluent Clients category of the Private Banking and Wealth Management ranking.
- Citi Handlowy was the first organization in the services sector and the first bank in Poland to be certified under **ISO 50001:2011**. It is the highest standard which requires continuous improvement of energy performance and energy systems. The certification process was preceded by two years of preparations and the implementation of an overarching Environmental Management System.
- Citi Handlowy received the prestigious **Top Employers Poland** certificate for the fourth consecutive year and thus joined the group of 39 organizations that meet the highest HRM (Human Resources Management) standards. As in the previous years, an independent survey by the Corporate Research Foundation (CRF) verified the key HRM areas including workplace conditions, training and development, and organizational culture.
- **The Warsaw Stock Exchange** has acknowledged DMBH by giving it four awards. For the fifth time, DMBH received the first prize for the highest share in session trading in equities on the main market; for the second time, DMBH received the distinction for the highest share in trading in non-Treasury bonds on Catalyst; for the first time ever, DMBH received the prize for the Broker of the Year. At the 2013 stock market gala, the Management Board of the Warsaw Stock Exchange presented Citi Handlowy with a distinction for the highest turnover on the cash market of Treasury BondSpot Poland in 2013.
- The editors of **The Warsaw Business Journal** presented Polish companies with certificates for the first position in the rankings of this years' edition of the **Book of Lists**. DMBH ranked first in the Book of Lists ranking for the highest share in session trading on the Warsaw Stock Exchange. The Book of Lists is the biggest and oldest business publication on the Polish publishing market, which presents – in Polish and in English – around 70 rankings of more than 2,500 best performing companies in different industries in Poland.
- Citi Handlowy was one of two banks among the six companies awarded for excellent investor relations. The survey was carried out by **TNS Polska** as part of the project "**Public Company of the Year**" run by Puls Biznesu. The survey among 130 analysts, consultants and stock brokers evaluated all companies listed on the Warsaw Stock Exchange.
- 16 Corporate Social Responsibility (CSR) initiatives of Citi Handlowy were commended by the Responsible Business Forum in its **12th edition of "Responsible Business in Poland. Good**

Practice" report. It has been published since 2002 and is the only such study which summarizes key issues in the area of CSR business activities. The practices listed in the report included a record-high number of 16 initiatives of Citi Handlowy, i.e. 6 more than in 2013. The new practices (first time in the report) included the Aleksander Gieysztor Award, the Bank Handlowy Award, the Roots Program, the Volunteer Club, Be Entrepreneurial, Business Start-up, Environmental Management System Maintenance, Energy Management System Implementation, and the Live Well Program.

- Citi Handlowy was named the Best Foreign Bank in Poland in the **EMEA Finance Europe Banking Awards 2013 ranking**. The prestigious financial magazine EMEA Finance awarded Citi Handlowy for consistent development and high profitability. In addition to a positive appraisal of the Bank's assets growth and generated financial results, the ranking appreciated the innovative edge of its products and services. The Smart Banking Ecosystem was also acknowledged. EMEA Finance awards have been given for six years to the best financial institutions in the emerging markets of Europe, Middle East and Africa (EMEA).

7.2 Cultural patronage and sponsorship

- In the first half of 2014, Citi Handlowy sponsored several national and international conferences. It supported the **6th European Economic Congress in Katowice** where the Bank's experts participated in selected panel discussions. The three-day event featured more than 100 debates and brought together more than 6,000 representatives of business and public institutions in Poland and abroad. This year's European Economic Congress focused on planned investment projects, the prospects of modern cities, and the situation in the East. The representatives of Citi Handlowy at the Congress focused on challenges faced by companies planning international expansion.

- Citi Handlowy continued its relations with the **Polish Golf Union** as its strategic sponsor for the fourth consecutive year. The Bank is regularly involved in a series of diverse golf events.

- Citi Handlowy was the patron of the Polish edition of **Lee Kuan Yew's** book ***Grand Master's Insights on China, the United States and the World***. A debate about the publication was organized in February 2014. The discussion participants included Radosław Sikorski, the Polish Foreign Minister, and Edmund Wnuk-Lipiński, Honorary Rector of Collegium Civitas. The discussion inspired by the book focused on the future of Poland and its options of economic growth. It afforded an opportunity to discuss the potential of Polish companies. The book *Grand Master's Insights on China, the United States and the World* is a study of international and economic relations presented in questions and answers by the former Prime Minister of Singapore, statesman and author of the economic success of the city-state.

- In June 2014, Citi Handlowy and DMBH were the main partners of the 18th edition of the **Wall Street Conference**, Poland's biggest event for individual investors. The experts of the Bank and DMBH participated in meetings and discussions devoted to the current situation of the stock market. The event provided an opportunity to meet representatives of the government and the financial sector.

7.3 Social commitment of the Bank

The implementation of the Bank's corporate social responsibility strategy is coordinated by the Leopold Kronenberg Foundation which supports charity initiatives on behalf of the Bank. In the first half of 2014, the Foundation focused on financial education, protection of Poland's cultural heritage and co-ordination of the Bank's employee volunteering initiatives for those in need.

The implementation of the programs was as follows:

- **My Finances** is the largest financial education program for young people in Poland. The program is co-financed by the Leopold Kronenberg Foundation and the National Bank of Poland and implemented in schools by the Junior Achievement Young Enterprise Foundation Poland. In the first half of 2014, nearly 100,000 students participated in the program. The program was moderated by 1,600 teachers.

- **Savings Week** is an educational action in the media to promote savings and the skills of rational management of personal finances among Poles. The campaign is carried out by the Leopold Kronenberg Foundation together with the Think! Foundation. The goal of the program is to develop systemic changes in education focused on management of personal finances. In the first half of 2014, three debates on financial education were organized in co-operation with the Gdańsk University of Technology, the Economics and Management Faculty of the University of Szczecin, and with the local government of the Świętokrzyskie Province. The events also feature competence workshops for university students organized in co-operation with Citi Handlowy HR experts.

- **Financial Independence of Women** is a program for women experiencing or exposed to economic violence. The program implemented in cooperation with the Women's Rights Centre covered 720 women in the first half of 2014.

- **Bank Handlowy w Warszawie S.A. Award** for an outstanding scientific contribution to development of economics and finance – this competition aims to promote the most valuable theoretical publications in the field of economics and finance. The awards will be given in October.

- **Be Entrepreneurial** is a financial education program addressed to students of middle schools and secondary schools. It is implemented in cooperation with the Junior Achievement Young Enterprise Foundation Poland. Its objective is to provide learning opportunities and teach students the attitudes and skills in the area of broadly defined entrepreneurship by implementing practical student projects (middle schools) and by founding and running business in the legal form of open partnership (secondary schools). The program has reached nearly 11,000 students in 550 schools across Poland.

- **Business Startup** is a two-part program which supports young entrepreneurs (assistance in opening and running a business and support for existing companies). It is implemented in cooperation with Academic Incubators of Entrepreneurship. The objective of the project is to promote entrepreneurship among students and to help them make their business vision come true. 350 students and 100 start-ups take part in the third edition of the program.

- **Business in Female Hands** is a new program launched in April 2014 at the 4th Conference of the Woman Entrepreneur Network "How to Grow a Successful Company". It is implemented in co-operation with the Woman Entrepreneurship Foundation. The objective of the program is to create a cluster of women's companies in Warsaw. Over six months, program participants are trained in different aspects of business and participate in networking events where they are instructed in establishing business relations. A great asset of the program are one-on-one meetings with a mentor: a successful businesswoman. The Capital City of Warsaw Municipal Office acts as the partner of the project. Nearly 200 applicants enrolled for the first edition of the program and 50 of them were selected as participants.

- **Micro Company of the Year 2014** is a competition for owners of microbusinesses to promote the philosophy of micro-entrepreneurship. The results of the competition were announced on June 17, 2014. The winner was Sant-Tech sp. z o.o., a producer of sandblasters and other abrasive blasting technologies.

- **Aleksander Gieysztor Award** is the most prestigious award given annually to institutions or individuals in recognition of their efforts for protection of Polish cultural heritage. The winner of the 15th edition was the Rasos Cemetery Restoration Association. The award was presented at the Warsaw Royal Castle on February 6, 2014.

- **Recovery of Polish Art** is a program which aspires to recover the cultural heritage lost by Poland during WWII. In the first half of 2014, the Leopold Kronenberg Foundation at Citi Handlowy in co-operation with the Ministry of Foreign Affairs gave to the National Museum in Warsaw a collection of 42 drawings and lithographs by prominent Polish painters, which had been recovered in late 2013.

- **Roots** is a program under which the Foundation promotes the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In the first half of 2014, the Leopold Kronenberg Foundation at Citi Handlowy actively participated in the initiatives of the European Association for Banking and Financial History. The Foundation also continued the search in the St. Petersburg archives for the original statute of Bank Handlowy, dated 1870 and signed by the Chairman of the Council of State Grand Duke Constantine, who approved the inception of the Bank. More than 31,000 digital copies of materials relating to the history of Bank Handlowy and the Kronenbergs have been compiled.

- **Employee Volunteering Program of Citi Handlowy** aims to promote the social commitment of present and former employees of the Bank. In the first half of 2014, 192 volunteer projects were implemented (including as part of the Citi Global Community Days) and volunteers (including those from outside the organization) were involved more than 2,500 times.

- **Grant Program** is a competition through which the Leopold Kronenberg Foundation at Citi Handlowy supports the most valuable projects conceived by non-for-profit organizations in the area of education and local development. In the first half of 2014, 13 grants were allocated in the total amount of PLN 345,750.

- **Responsible Business League (Liga Odpowiedzialnego Biznesu)** is a program that promotes the CSR concept as a business standard in the academic community. The program is organized by the Responsible Business Forum in co-operation with the Leopold Kronenberg Foundation and public universities. The next edition of the program started in the academic year 2013/2014 and has over 8,000 participants.

7.4 The Bank's commitment to environmental management

The Bank is an environmental management leader in the financial industry: it has implemented the Environmental Management System, holds the Green Office certificate and is the first Polish signatory of the Carbon Disclosure Project. The Bank takes measures addressed to clients, suppliers and subcontractors and supports their environmental initiatives. In the first half of 2014, Citi Handlowy implemented many projects raising the environmental awareness of employees as well as initiatives engaging them in daily efforts in favor of rational energy management.

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

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

1.1 Economy and macroeconomic environment

Rising geopolitical tensions in the Eastern Europe which might lead to a deeper slowdown in Russia and recession in Ukraine may prove to be major risks to the Polish economy. Imposing of extended sanctions by the European Union and the response of Russian authorities to limit the imports from EU may negatively impact the trade flows of Poland and lead to a slowdown in the economy. It cannot be also ruled out that further levels of sanctions – if happen – could partially have adverse impact on the energy market leading to growth in production costs and inflation in Poland.

Another threat to the Poland's economy remains the uncertainty regarding the direction and time of monetary policy changes of the largest central banks. The outlook for non-standard monetary policy of ECB may increase inflow of foreign capital to Poland, while shift towards monetary policy tightening in the United States could increase volatility on the financial markets.

Apart from the external factors, the scope of slowdown in Poland remains uncertain. Available forecasts suggest that a slowdown in the middle of a year is temporary and of limited scale, and the growth will accelerate afterwards. However, if the slowdown last longer, it could create an environment justifying further loosening of the monetary policy by the Monetary Policy Council.

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

1.2 Regulatory risk

Any changes of economic policy or in the legal system could have a considerable impact on the financial position of the Group. For banking sector regulations, acts of Parliament and related secondary regulations are of particular importance, including regulations of the Minister of Finance, resolutions of the Management Board of the National Bank of Poland ("NBP"), orders of the President of the NBP and resolutions of the Polish Financial Supervision Authority ("KNF") and supervisory recommendations.

Of those referenced to above, the most fundamental regulations include:

- acceptable concentration limits for loans and total receivables (Banking Law);
- maximum equity that may be invested in capital markets (Banking Law);
- liquidity, solvency and credit risk standards (KNF resolutions);
- risk management at banks (Banking Law, KNF resolutions);
- mandatory reserves – establishment and transfer (NBP Act, Banking Law, KNF resolutions, resolutions of the NBP Management Board);
- taxes and similar charges;
- Act of July 7, 2005 amending the Civil Code and certain other acts limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans;
- limitations on granting foreign currency mortgage loans that result from Recommendation S and Recommendation S(II) of KNF;
- Competition and Consumer Protection Act of February 16, 2007;
- Act on Countering Unfair Market Practices of August 23, 2007;
- Act on Countering Money Laundering and the Financing of Terrorism of November 16, 2000;
- Consumer Credit Act of July 29, 2001;
- Consumer Credit Act of May 12, 2011;
- Payment Services Act of August 19, 2011;
- Trade in Financial Instruments Act of July 29, 2005, and its amendment planned in 2014;
- Act of December 6, 2013 amending certain acts in connection with determination of rules of distribution of pensions from funds accumulated in open pension funds;
- Bank Guarantee Fund (BGF) Act of December 14, 1994 – The Act of July 26, 2013 amending the BGF Act and certain other acts came into force on October 4, 2013. Pursuant to it, the BGF may, upon the request of the minister competent for financial institutions, issue capital increase guarantees (so called recapitalization guarantees) for domestic bank in the course of a restructuring procedure. Such guarantees will be financed from the stabilization fund, which was created as a new own fund of the BGF. The stabilization fund is fed with prudential fees contributed by entities covered by the guarantee system (i.e. banks). The prudential fee is calculated as the product of a rate up to 0.2% and the basis of calculation of the annual fee. The prudential fee rate for a given year will be determined, within the above restraints, by the Council of the Bank Guarantee Fund, which should take into account the situation in the financial sector and its macroeconomic environment;
- Regulation (EU) No. 648/2012 of the European Parliament and of the Council of July 4, 2012 and the Commission Delegated Regulation supplementing the above regulation. The regulation, together with its secondary acts, has introduced additional rights and obligations of the parties to an OTC derivative transaction to improve the safety and transparency of such trades. As a matter of principle, the regulation applies (with specified exceptions) to OTC derivative transactions (contracts), i.e. transactions (contracts) not executed in a regulated market. The obligations resulting from the above regulation are binding not only on professional financial institutions (banks, brokerage houses, etc.), but also on each entity that is an undertaking and executes derivative transactions (contracts) ;
- Recommendation A of the Polish Financial Supervision Authority concerning concerning managing the risk accompanying transactions on the derivatives market concluded by banks;
- Recommendation T of the Polish Financial Supervision Authority concerning good practices in the area of management of risks of retail credit exposures;
- Recommendation I concerning FX risk management at banks and the principles of execution by banks of operations exposed to currency risk;
- Recommendation M of the Polish Financial Supervision Authority concerning operational risk management at banks.

Regulations which may impact the activity of the Bank in the coming periods:

- Recommendation U of the Polish Financial Supervision Authority: on June 24, 2014, the Polish Financial Supervision Authority adopted Recommendation U concerning good practice of bancassurance. The Recommendation should be implemented in the practice of supervised institutions no later than March 31, 2015. Its implementation may have a significant impact on the distribution of insurance products by banks, their customer relations, bancassurance policy management and monitoring. The main issues covered by the recommendation include: regulating the obligations of the management board and the supervisory board in the implementation of bancassurance policy, conflict of interest rules for banking activity (in particular where a bank acts both as the insurer and the insurance intermediary), requirement for banks to clearly communicate their role (intermediary or insurer) to clients, rules for banks' reliable client information policy, giving clients a choice of insurance products and insurers, enabling clients or their inheritors to raise claims directly where a bank decides not to raise claims from the insurer, the requirement for banks to set their fee on offered insurance products in proportion to costs incurred by them, the requirement for banks to have an effective bancassurance internal control system (including monitoring of processes involved in the offering of insurance products and application of the correct recognition of income from the products offered);

- Recommendation D concerning management of IT areas and ICT environment security at banks. The recommendation has replaced the previous Recommendation D. As compared to the previous version of Recommendation D, provisions have been implemented among others in relation to management of data (including data quality), principles of co-operation between business and technology, the management information system for IT and ICT security and cloud computing. Supervisory expectations have also been updated and clarified as regards strategic planning in the IT area and security of the ICT environment, implementation of new and modification of existing IT solutions, co-operation with third-party service providers and management of risks connected with ICT environment security. Recommendation D should be implemented by banks no later than the end of 2014;

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 ("CRD IV") on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR") – issues regulated by CRD IV include the establishment of banks, capital buffers, supervision, management and corporate governance of banks and investment firms. CRR contains regulations regarding among others own funds, capital requirements, liquidity and leverage. CRD IV is required to be transposed into Polish law while CRR applies directly in all Members States of the European Union as of 1 January 2014. Work is underway on national transposition of CRD IV in Poland and harmonization of the Polish law to directly applicable provisions of CRR. As a result, the Ministry of Finance drafted an act amending the Banking Law and some other Acts and presented the draft on 16 April 2014 for consultation, public consultation and opinion to institutions such as the Polish Bank Association, the National Bank of Poland and the Polish Financial Supervision Authority. The transposition of CRD IV will be accompanied by implementing regulations issued under the mandate given in the draft act. The draft Act is expected to come into force in the second half of 2014. Furthermore, pursuant to CRD IV and CRR, regulatory technical standards will be implemented in subsequent years.

- On June 26, 2014, the Polish Parliament passed a law amending the Consumer Bankruptcy Act: individuals in distress for reasons beyond their control will be allowed to file for bankruptcy on more advantageous terms. The main solutions used in the Act include:
    - Elimination of barriers in accessing consumer bankruptcy: the court may dismiss a motion to declare consumer bankruptcy where the consumer becomes insolvent due to wilful action or gross negligence, provided that negative conditions do not apply (e.g. a bankruptcy procedure was opened or the debtor did not file a motion for bankruptcy despite being insolvent within the last 10 years). At this time, a debtor may declare bankruptcy if it arises from exceptional circumstances beyond the debtor's control, in particular if the debtor assumes an obligation while being insolvent or the debtor's employment contract is terminated for reasons caused by the employee or with the employee's consent;
    - Reduced cost of the consumer bankruptcy procedure, to be temporarily paid by the State Treasury;
    - Option of creditor agreement as part of the bankruptcy procedure in order to e.g. allow the debtor to retain his or her home in exchange for an individual repayment plan approved by the majority of the creditors (currently, only liquidation bankruptcy is allowed);
    - Moving beyond a strictly formal approach to the bankruptcy procedure: the court may overlook minor errors in the consumer's applications and declarations if justified by principles of social co-existence, in particular on humanitarian grounds;
    - Consumer bankruptcy may also be declared if the debtor only has one creditor, and in the case of individuals running a farm;
    - The bankrupt debtor's liabilities may be cancelled if the personal situation of the debtor clearly suggests that he or she would be unable to make any payments under a creditor payment plan;

- The option for creditors to file for cassation of a court decision cancelling liabilities.

According to the existing draft, the Act will enter into force on the lapse of 3 months after the date of publication.

- The Consumer Rights Act of May 30, 2014 (Journal of Laws of 2014, item 827) was published on 24 June and enters into force on December 25, 2014. The Act will replace the existing Acts:
  - Act of March 2, 2000 on protection on some consumer rights and hazardous product liability;
  - Act of July 27, 2002 on special terms of consumer sales and amending the Civil Code.

  With respect to the banking activity, the main amendment is the elimination of the form of sale outside the enterprise's premises. At present, the Act provides for different requirements for financial services sold remotely and sold outside the enterprise's premises. After the new Act takes effect, all sales of financial services outside a branch will be considered remote sales.
  Furthermore, the Act introduces an amendment of the Telecommunication Law whereby the use of telecommunication terminals and automated calling systems for direct marketing will be forbidden unless pre-approved by the subscriber or end user.

1.3 Competition in the banking sector

In the first half of 2014, the Polish economy continued to grow at a high rate but there were also signs of slow-down. According to estimates of the Bank, growth in the second quarter slowed down to 3.0% from 3.4% at the beginning of the year; however, growth is poised to accelerate again in the coming quarters to 3.6% in 2015. At the same time, inflation is at a historical low and may temporarily turn into slight deflation. The interest rates are also historically low and may be cut by the Monetary Policy Council in the latter half of the year in response to signals from the markets.

The prevailing low interest rates affect the results of the financial industry. However, it should be noted that the current levels of the rates are stable and long-lasting. They have remained unchanged since July 2013, which allowed financial institutions to adapt to the unfavorable environment. This is reflected in changes to the product offer of banks in favor of high-margin products in an effort to boost interest income.

Despite the negative developments in the environment of the banking sector, the first half of the year was a good time for banks, whose loan and deposit volumes grew dynamically. The growth rate was 3.8% and 4.8%, respectively, for corporate banking and 3.6% and 6.4%, respectively, for consumer banking. However, the income on the growing portfolio was curbed by lower margins which dropped by 0.6 p.p. YoY for corporate loans and by 0.9 p.p. for consumer loans.

Looking forward, the income of the sector will be adversely impacted by the new maximum rate of the interchange fee effective as of the beginning of July 2014. Banks have prepared for the change in the past months by redefining the existing model where income from card transactions subsidized extensive loyalty programs; this has now been replaced with simpler and more transparent solutions.

An issue relevant to the banking sector is the standing and outlook of the savings and loans associations (SKOK). The difficult position of SKOK may potentially have an adverse effect on confidence in the financial sector. It is in the interest of both clients and the institutions to solve the issue in a way that is least detrimental to clients.

No consolidations of major players are expected in the nearest future; however, mergers and acquisitions of banks outside the top 10 are not out of the question as they seek to improve effectiveness by gaining in scale. In the opinion of the regulator, the concentration of the banking industry is "close to optimal", which may imply no green light for further major deals. Co-operation between banks and companies in other sectors is expected to become closer, enabling them to develop a broad offer and boost revenue through cross-selling. The first projects involving alliances between financial institutions and telecoms have already been forged.

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

2.1 Liquidity risk

The mismatch between maturity dates of loans and underlying deposits used to finance them is a typical feature of banking activity, and also occurs at the Bank. It can give rise to problems with current liquidity in case of a build-up of large payments to customers. The management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Assets and Liabilities

Committee (ALCO) of the Bank, which defines the strategy that is implemented by the Financial Markets Sub-Sector.

At the Bank, the key ALCO tasks include: to manage the structure of the balance sheet in order to increase its profitability, to determine acceptable limits of financial risk for specific areas of operation, to coordinate the interest rate pricing policy, and to make decisions concerning the transfer pricing system used within the Bank.

As part of liquidity risk management, ALCO is responsible for the development and implementation of a uniform liquidity risk management policy at the Bank and approves annual liquidity plans and plans of financing of the Bank’s assets, as well as liquidity limits for the Bank. It also signs off liquidity contingency action plans and determines thresholds (limits) for particular sources of funding and carries out regular reviews of liquidity risk reports.

The deposit base of the Bank is stable and diversified. Furthermore, the Bank has a large portfolio of liquid securities, assured access to interbank funding and high own funds. The level of liquidity risk was low in the first half of 2014.

2.2 Foreign exchange risk

The Bank executes foreign exchange operations both on behalf of its customers and on its own account, whilst holding any open FX positions within established limits. As a result, the Bank is exposed to exchange rate risk, which is controlled by the Market Risk Department in cooperation with the Financial Markets Sub-Sector that manages liquidity and the foreign exchange position. In the first half of 2014, the market risk of the Bank’s own positions was low.

2.3 Interest rate risk

Similar to other Polish banks, the Bank is exposed to a risk arising from a gap in the timing of changes in interest rates on its assets and the underlying liabilities (revaluation date gap risk) and from the sensitivity of the value of debt securities and derivatives to changes in the market interest rates (pricing risk). In respect of the revaluation date gap risk, interest rate risk can arise when a decline in income caused by lower interest rates on loans proves impossible to offset through a corresponding reduction in interest rates paid to deposit holders. This risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk can arise when changes in the market rates have an adverse effect on the valuation of instruments in the trading portfolio and, consequently, on the Bank’s financial result or on the valuation of the portfolio of securities available-for-sale and, thus, on the Bank’s equity. The management of interest rate risk is a responsibility of the Bank’s Assets and Liabilities Committee, among other things, determines the Bank’s interest rate risk pricing policy. In first half of 2014, the level of interest rate risk ranged between moderate and high both for trading portfolios and bank portfolios.

2.4 Credit risk and counterparty risk

Credit risk and counterparty credit risk represent a potential loss resulting from a customer’s inability to pay its contractual obligations due to insolvency or other reasons, taking account of collateral, unfunded credit protection and other loss mitigating agreements. In the case of counterparty risk, the Bank’s exposure is variable over time and depends on changes of market parameters. Loss on such exposures may result from counterparty default or changes in credit valuation adjustment (CVA). The Bank determines the CVA amount and recognizes it in the relevant income statement lines.

The Bank sets limits for the credit risk and counterparty risk it takes at the level of exposure to a given entity or a group of related entities. In addition, portfolio-level limits are established that support the process of management and on-going monitoring of the credit portfolio. The process of proactive portfolio quality management covers not only assigning appropriate ratings to exposures, but also assigning them with appropriate internal classifications, recognizing their impairment and applying relevant corrective or collection actions. For credit exposures, the Bank makes impairment write-offs as required by law. The Management Board of the Bank is of the opinion that the current level of impairment write-offs and CVA is adequate.

2.5 Operational risk

Operational risk is defined as the risk of loss resulting either from inadequate or failing internal processes, people or technology systems or from external events. It includes reputation risk, associated with operational risk events, business practices or market conduct, as well as legal risk and compliance risk. Operational risk does not include strategic risk or the risk of potential loss caused by decisions to accept credit risk, market risk, liquidity risk of insurance business risk.

The goal of the implemented Operational Risk Management Strategy and Policy is to put in place a coherent, effective, value-added oriented system of operational risk identification, assessment, mitigation, control, monitoring and reporting and to ensure effective reduction of exposure to operational risk and, consequently, to reduce the number and severity of operational risk events (policy of low tolerance for operational losses), as well as increase overall effectiveness of the internal control environment across the organization of the Bank.

In the operational risk supervision and management process, the Supervisory Board and the Management Board of the Bank are supported by appointed Committees and a separate independent unit responsible for operational risk management. Management information on operational risk for the Committees includes data necessary to monitor the Bank's operational risk profile (e.g. results of internal controls and external audits, results of self-assessment, Key Risk Indicators (KRI), operational losses, COB and information security updates, problems and corrective actions, capital requirements, stress testing).

In view of a low appetite for operational risk, the family of operational risks (including technological and technical risk, outsourcing risk, risk of fraud, money laundering, information security, external events (continuity of business), tax and accounting risk, product risk, compliance risk, legal risk, model risk and HR risk) is managed largely by means of the effective control environment and the engagement of specialized units in management of particular risks. Operational losses incurred by the Bank in the first half of 2014 were lower than in the first half of 2013.

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

1. General objectives for the Group development

The Bank continued its Strategy for 2012-2015 adopted in 2012. It is based on four key pillars: customer segmentation, business model, quality and innovation, and effectiveness.

Both in the Consumer Bank and in the Corporate and Commercial Bank, the Group takes many initiatives to make offered services even more attractive, in particular in those areas where the Group has a major competitive advantage. The initiatives focus on services provided to affluent customers (CitiGold) and customers aspiring to affluence, as well as the credit card segment; the Corporate Bank focuses on global corporations and the biggest Polish companies. Other important segments include the forex market, transactional banking, securities custody, as well as institutional brokerage activities.

In recognition of the importance of relations with existing clients, the Group focuses on expanding the relations to make them comprehensive and to offer a full range of benefits to clients. At the same time, the Group takes many initiatives to open relations with new clients.

Innovation and top quality service are the pillars of the strategy adopted by the Bank. By constantly enriching and updating its product range, the Bank is able to set new development trends in the banking sector and effectively compete in the financial services market.

Taking into account the constantly changing needs and expectations of customers, the Bank redefines the existing methods of communication by optimizing its distribution network and developing Smart outlets, which are situated at locations frequently visited by the Bank's clients, while facilitating access to the banking offer via remote channels. Investment in technology aims to ensure top customer satisfaction with the level of service and to expand the sales of products using mobile solutions while ensuring complete security.

The main goal of the Group is still to build value of the Bank by improving operational effectiveness and leveraging the market advantage resulting from its strong capital position and high liquidity, which ensure safety to its customers and their trust in the Bank as an institution. A further improvement in the quality of services and processes and investments in new technologies will enable the Bank to develop and launch ground-breaking innovations to strengthen its market position. For customers, a source of added value will be the effective utilization of the global profile of Citi Handlowy, enabling them to access services provided by the Bank from any place in the world.

1.1 Corporate and Commercial Bank

In the Corporate and Commercial Bank segment, the Bank plans to maintain its lead in the segment of the largest local companies and international corporations, as well as to reinforce its position in the SME segment. To this end, it will expand relationships with existing customers and acquire new ones in selected sectors. The Bank intends to provide active support to customers planning regional or international expansion as part of the Emerging Market Champions initiative to leverage the unique opportunities afforded by being a member of the Citigroup. The goal of the Bank is to be the Strategic Partner of Polish companies and to proactively support the expansions of Poland's industry. The Bank's long-term ambition is to become the bank of choice in the SME sector. As far as the product offer is concerned, the Bank also plans to maintain its leading position in the foreign exchange market, in cash management products and institutional brokerage operations.

The Bank intends to enhance its effectiveness by improving processes, to focus on innovations and to raise the quality of its services. In transactional services, the Bank will continue to expand the product range for corporate clients in order to maximize the share of wallet in the case of existing customers and to support the acquisition of new customers. Being fully aware of market volatility and high expectations of partners, the Bank strives to cut the time to market for new solutions.

1.2 Brokerage activities

In view of a large exposure to institutional and foreign investors, the activity of clients in those segments, which depends on the inflow of new capital and the conditions on the stock market, is a key factor impacting the results of DMBH.

A key risk factor in the coming quarters is the introduction of voluntary participation in the second pillar of the pension system and the gradual transfer of savings to the Social Insurance Institution (ZUS) resulting in limited inflow of capital to Open Pension Funds (OFE). Furthermore, demand of this client segment for domestic stocks may shrink due to a higher legal cap on foreign investments. The activity of local investment funds depends on the inflow of new cash into the funds, which in turn depends largely on the conditions on the stock market.

1.3 Consumer Bank

The Bank will continue to focus on customer segments and products where it has the competitive advantage. This implies further growth in wealth management and relational banking, focused on the affluent (CitiGold) and emerging affluent customer segments. In the CitiGold segment, the Bank will strive to consolidate its position as a leader and ensure that Citi Handlowy remains the bank of choice with a full range of banking products, auxiliary services, privileges and exceptional client-oriented service. In response to the needs of aspiring clients, the Bank launches the Citi Priority service. Product packages, a unique debit card, global privileges and a focus on digital customer service make the offer truly special and address the needs of customers for whom state-of-the-art technology, a global lifestyle and flexible access to banking services are key. Self-service Smart branches and new Citibank Online functionalities support such flexibility.

The leading position in the credit card market is the main competitive advantage of the Bank and generates customer acquisition. The main goal in this area is to maintain the leading position as measured by the number and volume of credit card transactions and to support the acquisition of new card clients by tailoring the credit card offer to the market environment and customers' needs.

The Bank plans to further develop the Smart Banking Ecosystem in the latter half of the year. Further modern branches will open both in shopping malls and at popular locations in Poland's biggest cities which are easily accessible and frequented by clients. In the next six months, the Smart Banking Ecosystem will expand among others to Kraków and the Tricity while additional branches will open among others in Warsaw and Wrocław.

Along with the development of the modern Smart branch network, the Bank plans to implement further innovative technological solutions which will accelerate customer service and sales processes.

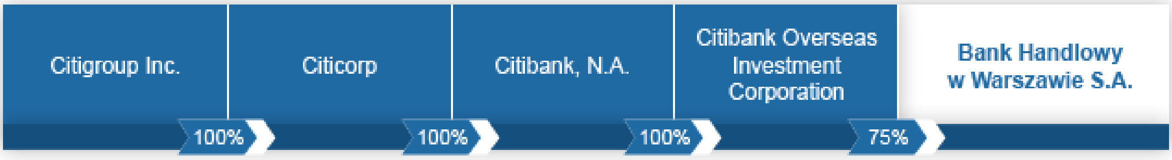
VIII. Investor information

1. The Bank's shareholding structure and performance of its shares on the WSE

1.1 Shareholders

The only shareholder of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders' Meeting (GSM) is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds the group's overseas investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the first half of 2014, neither the number of shares held by COIC nor its participation in the share capital and votes at the GSM of the Bank changed, and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM.

The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:

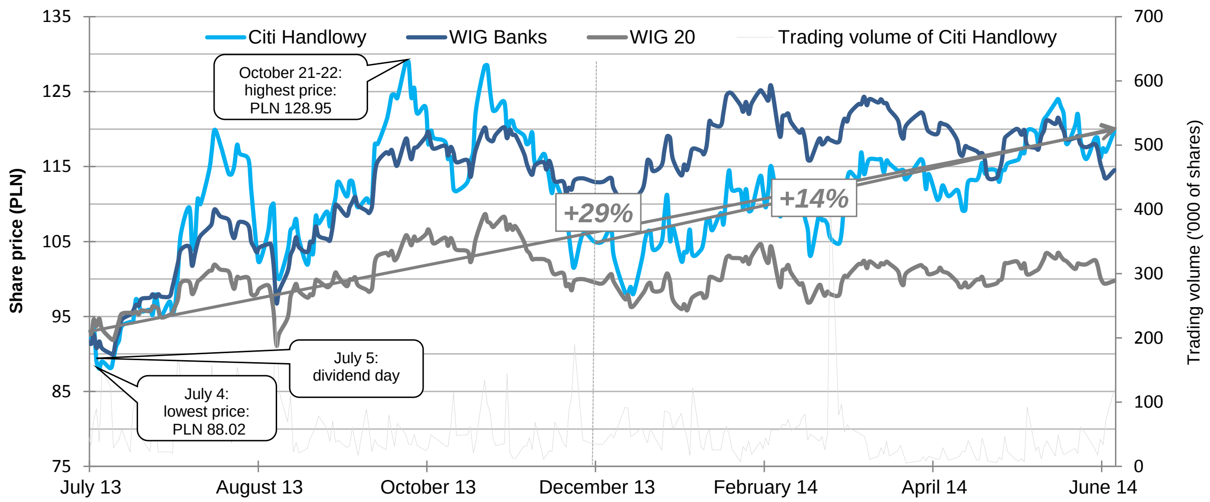


The remaining shares (32,664,900, equivalent to 25% of the share capital) constitute free float, which means that they remain in free trading and are listed on the WSE.

1.2 Performance of the Bank's shares on the WSE

The Bank's stock price was PLN 119.75 at the end of the first half of 2014, an increase of 28.8% YoY (i.e. compared to the closing price of PLN 93.00 on June 28, 2013). The WIG-Banks, WIG and WIG20 indices also gained 23.1%, 16.1% and 7.3%, respectively, YoY. In the first half of 2014 alone, the Bank's stock price rose in a double-digit dynamics (by 14.0%, from PLN 105.00 as of December 30, 2013), while the WSE's main indices: WIG-Banks, WIG and WIG20 reported a single-digit growth by 1.4%, 1.3% and 0.3%, respectively, in the same period. In the 12-month horizon the Bank's stock price was the highest on at PLN 128.95 on October 21-22, 2013. The average stock price of the Bank in the last 12 months was PLN 110.40 and the average daily turnover in the Bank's stock was close to 54,000 shares.

The Bank's share price and trading volume from the end of 1H 2013 vs. WIG-Banks and WIG20 indices (28/06/2013 = PLN 93.00)



At the end of June 2014, market capitalization of the Bank was PLN 15.6 billion (compared to PLN 13.7 billion as of December 30, 2013 and PLN 12.2 billion at the end of the first half of 2013). As of June 30, 2014 stock exchange indices were as follows: P/E –18.8 (compared to 14.1 as of December 30, 2013 and

10.6 in the first half of the prior year), P/BV – 2.3 (compared to 1.9 as of December 30, 2013 and 1.7 at the end of June 2013).

2. Dividend

On June 24, 2014, the Bank's Ordinary General Meeting decided to allocate 99.9% of the 2013 stand-alone net profit for a dividend, which implies a dividend per share at PLN 7.15

The table below shows a history of dividends since 1997, i.e., since the debut of the Bank on the WSE.

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits.*
*** On June 18, 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008 following the recommendation of the Polish Financial Supervision Authority (KNF) for the whole banking sector.*

3. Rating

The Bank is fully rated by international rating agencies: Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch").

During the first half of 2014, the ratings remained unchanged. The last change of Moody's rating took place on June 22, 2012, while Fitch affirmed ratings at the unchanged level on April 14, 2014.

As of June 30, 2014, the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits in the domestic currency	Baa3
Rating for long-term deposits in foreign currencies	Baa3
Rating for short-term deposits in the domestic currency	Prime-3
Rating for short-term deposits in foreign currencies	Prime-3
Bank's financial strength	D+
Bank's financial strength rating outlook	*Stable*
Long- term and short-term deposits in the domestic and foreign currency rating outlook	*Stable*

As of June 30, 2014, the Bank had the following ratings awarded by Fitch:

Long–term Issuer Default Rating	A-
Outlook	Stable
Short-term Issuer Default Rating	F2

Viability rating (VR)*	bbb+
Support rating	1

** Viability rating represents Fitch's view as to the intrinsic creditworthiness of an issuer excluding any impact of external factors.*

4. Investor relations

An integral element of the Bank's information policy, intended to cater to information needs of all persons and institutions interested in corporate information about the Company, are investor relations which provide information to the existing and potential investors as well as capital market analysts and rating agencies. In terms of investor relations, the main tools of the information policy are:

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

IX. Corporate governance rules in the Group

1. Best practice at the Bank

Since 2003, the Bank has complied with the corporate governance rules approved by the Warsaw Stock Exchange as the Best Practices in Public Companies 2002, the updated Best Practices in Public Companies 2005 and, as of January 1, 2008, the Best Practices for WSE Listed Companies ("Best Practices"), available at www.corp-gov.gpw.pl, the official website of the Warsaw Stock Exchange dedicated to corporate governance of companies listed on the WSE Main Market and NewConnect.

The key objective of adopting the corporate governance rules as a standard of the Bank has been to establish transparent relations among all corporate bodies and entities involved in the Bank's operation as well as to ensure that the Company and its enterprise are managed properly, with due diligence and loyally with respect to all shareholders. The willingness to ensure transparency of the operation of Bank Handlowy w Warszawie S.A., including in particular the relations and processes among the Company's statutory bodies, caused the Bank to adopt the best practices as set forth in the Best Practices for WSE Listed Companies.

The Management Board and the Supervisory Board of the Bank expressed their willingness that the Bank should follow corporate governance principles presented in the Code of Best Practice for WSE Listed Companies amended in 2010, 2011 and 2012, except for:

i. two rules: rule II.3 (applicable to the Management Board) and rule III.9 (applicable to the Supervisory Board) in respect of the Supervisory Board's approval of material transactions / agreements with related parties entered into as part of ongoing operations, in particular those related to liquidity management;

ii. recommendation I.12 relating to granting the shareholder with the right to exercise the right of vote in person or by the attorney during the General Meeting of Shareholders, outside the place of the General Meeting of Shareholders, using means of electronic communication.

Furthermore, the Management Board convened the Ordinary General Meeting of the Bank in 2014 and decided that the Meeting would not comply with the rule of Section 4.10(2) of the Best Practices concerning mutual real-time communication where shareholders may speak during a general meeting from a location other than the venue of the meeting. In its decision, the Management Board of the Bank considered the existing legal, organizational and technical risks which may affect the proceedings of the meeting. The risks involve technical issues, data transmission latency which prevents participants from speaking, as well as a long period of time when the meeting is waiting for a single shareholder to communicate with the company. Technical problems may generate the risk of shareholders' claims in respect of communication or the inability to vote at the meeting. However, the Bank offers a webcast of the general meeting which is published on the Bank's website.

A separate part of reports on the activities of the Bank and Bank's Capital Group for 2013 is statement of the Management Board on applying corporate governance principles in the Bank in 2013. The statement includes information mentioned in the Ordinance of the Minister of Finance on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state dated February 19, 2009 (Journal of Laws of 2014, item 133).

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

1.1 Transparency

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

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

1.2 Protection of minority shareholders

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

- General Meetings of the Shareholders of the Bank are always held at the head office of Bank in Warsaw,
- The Bank may organize the General Meeting in a manner allowing the shareholders to participate in the General Meeting using electronic communication means,
- Representatives of media are allowed to be present at the General Meetings of the Shareholders,
- According to the adopted practice, all important materials required for a General Meeting of the Shareholders, including draft resolutions reviewed by the Supervisory Board, are made available to the shareholders at least 14 days before the date of the General Meeting at the head office and on the website of the Bank,
- General Meeting of the Shareholders acts according to its bylaws that define in detail the rules of holding meetings and adopting resolutions,
- General Meeting of the Shareholders is attended by members of the Supervisory Board and Management Board, who give explanations and information about the Bank to other participants of the Meeting within the scope of their responsibilities,
- Members of the General Meeting of the Shareholders that object to a resolution have the right to justify their objection. In addition, each participant of the Meeting is allowed a possibility to make a written statement recorded in the minutes of the Meeting.

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

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

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

HL operates as a leasing company. HL operates in accordance with the Commercial Companies Code. HL has a Supervisory Board despite lack of requirement to have one, in order to ensure continuous supervision of the company operations.

3. Governing bodies of the Bank

3.1 Changes in the composition of the Management Board and Supervisory Board during the first half of 2014

3.1.1 Changes in the composition of the Management Board during the first half of 2014

During the first half of 2014 the Management Board of the Bank consisted of:

Sławomir S. Sikora	President of the Management Board
Brendan Carney	Vice-President of the Management Board
Maciej Kropidłowski	Vice-President of the Management Board from March, 19, 2014
Barbara Sobala	Vice-President of the Management Board
Misbah Ur-Rahman-Shah	Vice-President of the Management Board until March, 18, 2014
Witold Zieliński	Vice-President of the Management Board
Iwona Dudzińska	Member of the Management Board
Czesław Piasek	Member of the Management Board from May, 20, 2014

On March 5, 2014, the Chairman of the Supervisory Board accepted the resignation of Mr. Misbah Ur-Rahman-Shah as Vice-President of the Management Board of the Bank, effective as of March 18, 2014. At its meeting on March 19, 2014, the Supervisory Board of the Bank appointed Mr. Maciej Kropidłowski as Vice-President of the Management Board of the Bank for a three-year term of office. At the following meeting of the Supervisory Board, Mr. Czesław Piasek was appointed to the Management Board of the Bank for a three-year term of office.

3.1.2 Changes in the composition of the Supervisory Board during the first half of 2014

During the first half of 2014 the Supervisory Board of the Bank consisted of:

Andrzej Olechowski	Chairman of the Supervisory Board
Shirish Apte	Vice-Chairman of the Supervisory Board

Adnan Omar Ahmed	Member of the Supervisory Board
Igor Chalupec	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Marc Luet	Member of the Supervisory Board – until June 24, 2014
Frank Mannion	Member of the Supervisory Board
Dariusz Mioduski	Member of the Supervisory Board
Anna Rulkiewicz	Member of the Supervisory Board
Stanisław Sołtysiński	Member of the Supervisory Board
Zdenek Turek	Member of the Supervisory Board
Anil Wadhwani	Member of the Supervisory Board – from June 25, 2014
Stephen Volk	Member of the Supervisory Board

The term of office of Mr. Marc Luet as Supervisory Board Member expired on June 24, 2014.

On June 24, 2014, the Ordinary General Meeting of the Bank elected Mr. Anil Wadhwani to the Supervisory Board for a three-year term of office effective as of June 25, 2014 and Mr. Frank Mannion for another three-year term of office effective as of June 25, 2014.

3.2 Rules of appointing and dismissing members of the Management Board

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

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

3.3 Rights of the Management Board members

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

Through a resolution, the Management Board:

1) defines the Bank strategy,
2) creates and closes downs the committees supporting the work of the Bank and defines their powers,
3) decides and submits them to the Supervisory Board for approval the Management Board’s bylaws,
4) drafts regulations regarding the management of special funds created from the net profit and submits them to the Supervisory Board for approval;
5) decides on the date of payment of dividend within the timeline defined by the General Meeting of the Shareholders,
6) appoints plenipotentiaries, general proxies and proxies with power of attorney and substitution,
7) decides in matters defined in the Management Board bylaws,
8) resolves issues raised by the President, a Vice-President or a member of the Management Board;

9) independently decides on purchase or sale of real property, or on perpetual usufruct of or share in real property,

10) passes a resolution on the annual budget draft, accepts investment plans and reports of implementation of such plans,

11) accepts reports on the Bank's operations and financial reports,

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

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

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

15) approves of the employment structure,

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

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

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

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

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

4. Other principles

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

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

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

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

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

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

According to the information available to the Bank as the parent company, the Bank's shares are held by the following members of the Management Board and Supervisory Board of the Bank:

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2014	Number of shares as at the day of submitting the previous quarterly interim report for Q1 of 2014
Iwona Dudzińska	Member of the Management Board	600	600
Andrzej Olechowski	Chairman of the Supervisory Board	1,200	1,200
Total		**1,800**	**1,800**

Members of the Management Board and Supervisory Board of the Bank do not have any Bank share options.

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

In terms of employment relationship, there is only one employment agreement, out of employment agreements between the Bank and a Management Board Members, which provides for cash compensation following its termination.

Each of the Management Board Members signed a separate non-competition agreement with the Bank. A relevant paragraph in each of these agreements specifies that the Management Board Member must refrain from conducting business activities competitive to the Bank in the period of 12 months (6 months in case of one of the Management Board Member) following termination of the employment agreement with the Bank and that the Bank will pay relevant compensation to the Management Board Member.

3. Management policy

During the first half of 2014, no changes in the management principles were made. The management principles are outlined in the Note to the Interim Condensed Consolidated Financial Statements of the Capital Group of Bank.

XI. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board composed of: Mr. Sławomir S. Sikora – President of the Management Board, Mr. Brendan Carney – Vice-President of the Management Board, Mr. Maciej Kropidłowski – Vice-President of the Management Board, Ms Barbara Sobala- Vice-President of the Management Board, Mr. Witold Zieliński – Vice-President of the Management Board and Ms Iwona Dudzińska – Member of the Management Board, and Mr. Czesław Piasek, semi-annual financial data and comparative data presented in the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the 6-month period ended June 30, 2014" and "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the 6-month period ended June 30, 2014" were prepared in accordance with the principles of accounting and give a true, fair and clear picture of financial standing and financial position of the Bank and the Group as well as financial performance of the Bank and the Group. The "Report an activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2014", contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2014.

Selection of the auditor authorized to audit the financial statements

A licensed auditing firm – PricewaterhouseCoopers Sp. z o.o., examining the Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the 6-month period ended June 30, 2014" and "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the 6-month period ended June 30, 2014", was appointed in accordance with applicable laws. The firm and certified auditors that performed the examination satisfied the conditions necessary for issuing an objective and independent report on those statements, in accordance with applicable laws and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws of 2014, item 133) is included in the Interim Condensed Consolidated Financial Statements of the Capital Group of the Bank.

Members of Management Board signatures

Date	Name	Position/Function	Signature
18.08.2014	Sławomir S. Sikora	The President of Management Board	
18.08.2014	Brendan Carney	Vice-president of Management Board	
18.08.2014	Maciej Kropidłowski	Vice-president of Management Board	
18.08.2014	Barbara Sobala	Vice-president of Management Board	
18.08.2014	Witold Zieliński	Vice-president of Management Board, Chief Financial Officer	
18.08.2014	Iwona Dudzińska	Member of Management Board	
18.08.2014	Czesław Piasek	Member of Management Board	