



INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
FOR THE FIRST QUARTER 2016

MAY 2016

Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.
for the first quarter 2016

TRANSLATION

SELECTED FINANCIAL DATA	First quarter	PLN '000	First quarter	EUR '000***
	accruals	First quarter	accruals	First quarter
	period from 01.01.16 to 31.03.16	period from 01.01.15 to 31.03.15	period from 01.01.16 to 31.03.16	period from 01.01.15 to 31.03.15
Data related to the interim condensed consolidated financial statements				
Interest income	307,211	310,074	70,528	74,736
Fee and commission income	161,516	173,351	37,080	41,782
Profit before tax	128,445	274,628	29,488	66,193
Net profit	104,371	217,037	23,961	52,312
Comprehensive income	199,538	193,059	45,809	46,533
Increase/(decrease) in net cash	(1,236,544)	(820,197)	(283,878)	(197,690)
Total assets*	51,545,011	49,506,792	12,075,956	11,617,222
Amounts due to banks*	10,592,670	6,963,561	2,481,649	1,634,063
Amounts due to customers*	30,750,908	31,586,303	7,204,317	7,412,015
Equity	7,050,194	7,603,819	1,651,718	1,859,579
Ordinary shares	522,638	522,638	122,444	127,816
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	53.96	58.20	12.64	14.23
Total capital adequacy ratio (%)*	17.5	17.1	17.5	17.1
Earnings per share (PLN / EUR)	0.80	1.66	0.18	0.40
Diluted earnings per share (PLN / EUR)	0.80	1.66	0.18	0.40
Data related to the interim condensed standalone financial statements				
Interest income	306,624	308,478	70,393	74,352
Fee and commission income	151,436	159,803	34,766	38,517
Profit before tax	121,918	269,904	27,989	65,054
Net profit	98,152	213,179	22,533	51,382
Comprehensive income	192,747	190,061	44,250	45,810
Increase/(decrease) in net cash	(1,236,542)	(820,377)	(283,877)	(197,734)
Total assets*	51,371,865	49,442,300	12,035,391	11,602,088
Amounts due to banks*	10,569,046	6,922,125	2,476,114	1,624,340
Amounts due to customers*	30,946,594	31,764,349	7,250,163	7,453,795
Equity	6,975,213	7,538,646	1,634,152	1,843,640
Ordinary shares	522,638	522,638	122,444	127,816
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	53.38	57.70	12.51	14.11
Total capital adequacy ratio (%)*	17.3	16.8	17.3	16.8
Earnings per share (PLN/EUR)	0.75	1.63	0.17	0.39
Diluted earnings per share (PLN / EUR)	0.75	1.63	0.17	0.39
Declared or paid dividends per share (PLN/EUR)**	4.68	7.43	1.10	1.82

*Comparative balance data according as at 31 December 2015.

**The presented ratios are related to declared dividend from the distribution of 2015 profit and dividend paid in 2015 from the distribution of 2014 profit.

***The following exchange rates were applied to convert PLN to EUR: for the statement of financial position - NBP average exchange rate as at 31 March 2016 - 4.2684 (as at 31 December 2015: PLN 4.2615; as at 31 March 2015 - PLN 4.0890); for the income statement, a statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in the first quarter of 2016 - PLN 4.3559 (in the first quarter of 2015: PLN 4.1489).

Contents

Condensed consolidated income statement	4
Condensed consolidated statement of comprehensive income	5
Condensed consolidated statement of financial position	6
Condensed consolidated statement of changes in equity	7
Condensed consolidated statement of cash flows	8
Supplementary notes to the interim condensed consolidated financial statements	8
1 General information about the Bank and the Capital Group	8
2 Declaration of conformity	8
3 Principles accepted at the composition of the consolidated financial statements	9
4 Macroeconomic conditions and the situation in money, foreign exchange and capital markets	9
5 Banking sector	11
6 Financial analysis of the results of the Capital Group of the Bank	12
7 Segment reporting	16
8 Activities of the Group	18
9 Rating	26
10 Financial instruments disclosure	27
11 Impairment and provisions	29
12 Provision and asset due to differed income tax	30
13 Purchase and sale transactions of tangible assets	31
14 Default or breach due to received credit agreement in respect of which there were no corrective action until the end of the reporting period	31
15 Seasonality or periodicity of business activity	31
16 Issue, redemption and repayment of debt and equity securities	31
17 Paid or declared dividends	31
18 Major events after the balance sheet date not included in the financial statements	31
19 Changes in granted financial and guarantee commitments	31
20 Changes in Group's structure	32
21 Achievement of 2016 forecast results	32
22 Information about shareholders	32
23 Ownership of issuer's shares by members of the Management Board and Supervisory Board	32
24 Information on pending court proceedings	32
25 Information about significant transactions with related entities dealt on other than market terms.	33
26 Information about guarantee agreements	33
27 Other significant information	33
28 Factors and events which could affect future financial performance of the Bank's Capital Group	33
Interim condensed standalone financial statements of the Bank for the first quarter 2016	35

Condensed consolidated income statement

<i>PLN '000</i>	First quarter accruals period from 01.01.16 to 31.03.16	First quarter accruals period from 01.01.15 to 31.03.15
Interest and similar income	307,211	310,074
Interest expense and similar charges	(59,825)	(53,298)
Net interest income	247,386	256,776
Fee and commission income	161,516	173,351
Fee and commission expense	(18,876)	(21,944)
Net fee and commission income	142,640	151,407
Dividend income	1	-
Net income on trading financial instruments and revaluation	38,230	85,673
Net gain on debt investment securities available-for-sale	6,624	98,458
Net gain/(loss) on hedge accounting	4,157	-
Other operating income	17,695	13,325
Other operating expenses	(7,621)	(14,590)
Net other operating income	10,074	(1,265)
General administrative expenses	(294,508)	(295,338)
Depreciation and amortization	(18,549)	(17,592)
Profit on sale of other assets	9	4
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	5,519	(3,507)
Operating income	141,583	274,616
Share in net profits of entities valued at equity method	(1)	12
Tax on certain financial institutions	(13,137)	-
Profit before tax	128,445	274,628
Income tax expense	(24,074)	(57,591)
Net profit	104,371	217,037
Including:		
Net profit attributable to Bank's shareholders	104,371	217,037
Weighted average number of ordinary shares (in pcs)	130,659,600	130,659,600
Earnings per share (in PLN)	0.80	1.66
Diluted net earnings per share (in PLN)	0.80	1.66

Condensed consolidated statement of comprehensive income

	First quarter accruals	First quarter accruals
	period from 01.01.16 to 31.03.16	period from 01.01.15 to 31.03.15
<i>PLN '000</i>		
Net profit	104,371	217,037
Other comprehensive income, that might be subsequently reclassified to profit or loss:		
Net value of available-for-sale financial assets	94,614	(23,102)
Currency translation differences	553	(876)
Other comprehensive income net of tax	95,167	(23,978)
Total comprehensive income	199,538	193,059
Including:		
Comprehensive income attributable to Bank's shareholders	199,538	193,059

Condensed consolidated statement of financial position

	State as at	31.03.2016	31.12.2015
<i>PLN '000</i>			
ASSETS			
Cash and balances with the Central Bank		1,072,272	2,170,237
Amounts due from banks		816,243	757,103
Financial assets held-for-trading		8,140,051	6,987,284
Hedging derivatives		-	1,795
Debt securities available-for-sale		21,396,915	18,351,259
Equity investments valued at equity method		7,767	7,768
Equity investments available for sale		67,835	67,744
Amounts due from customers		17,517,332	18,975,471
Tangible fixed assets		349,970	354,080
Intangible assets		1,366,137	1,371,879
Current income tax receivables		52,176	20,673
Deferred income tax asset		139,461	161,586
Other assets		616,924	277,985
Non-current assets held-for-sale		1,928	1,928
Total assets		51,545,011	49,506,792
LIABILITIES			
Amounts due to banks		10,592,670	6,963,561
Financial liabilities held-for-trading		1,769,049	3,247,523
Hedging derivatives		107,069	112,383
Amounts due to customers		30,750,908	31,586,303
Provisions		20,382	23,494
Other liabilities		1,254,739	722,872
Total liabilities		44,494,817	42,656,136
EQUITY			
Ordinary shares		522,638	522,638
Share premium		3,001,525	3,001,525
Revaluation reserve		(68,999)	(163,613)
Other reserves		2,870,062	2,869,509
Retained earnings		724,968	620,597
Total equity		7,050,194	6,850,656
Total liabilities and equity		51,545,011	49,506,792

Condensed consolidated statement of changes in equity

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2016	522,638	3,001,525	(163,613)	2,869,509	620,597	-	6,850,656
Total comprehensive income, including:	-	-	94,614	553	104,371	-	199,538
Net profit	-	-	-	-	104,371	-	104,371
Currency translation differences from the foreign operations' conversion	-	-	-	553	-	-	553
Net valuation of available-for-sale financial assets	-	-	94,614	-	-	-	94,614
Balance as at 31 March 2016	522,638	3,001,525	(68,999)	2,870,062	724,968	-	7,050,194

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2015	522 638	3 000 298	52 873	2 893 523	941 428	-	7 410 760
Total comprehensive income, including:	-	-	(23 102)	(876)	217 037	-	193 059
Net profit	-	-	-	-	217 037	-	217 037
Currency translation differences from the foreign operations' conversion	-	-	-	(876)	-	-	(876)
Net valuation of available-for-sale financial assets	-	-	(23 102)	-	-	-	(23 102)
Balance as at 31 March 2015	522 638	3 000 298	29 771	2 892 647	1 158 465	-	7 603 819

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2015	522,638	3,000,298	52,873	2,893,523	941,428	-	7,410,760
Total comprehensive income, including:	-	-	(216,486)	880	626,419	-	410,813
Net profit	-	-	-	-	626,419	-	626,419
Currency translation differences from the foreign operations' conversion	-	-	-	(6)	-	-	(6)
Net valuation of available-for-sale financial assets	-	-	(216,486)	-	-	-	(216,486)
Net actuarial profits on specific services program valuation	-	-	-	886	-	-	886
Dividends paid	-	-	-	-	(970,917)	-	(970,917)
Transfer to capital	-	1,227	-	(24,894)	23,667	-	-
Balance as at 31 December 2015	522,638	3,001,525	(163,613)	2,869,509	620,597	-	6,850,656

Condensed consolidated statement of cash flows

	First quarter accruals	First quarter accruals
	period from 01.01.16 to 31.03.16	period from 01.01.15 to 31.03.15
<i>PLN '000</i>		
Cash at the beginning of the reporting period	2,354,352	1,732,915
Cash flows from operating activities	(1,177,493)	(749,906)
Cash flows from investing activities	(9,843)	(22,060)
Cash flows from financing activities	(49,208)	(48,231)
Cash at the end of the reporting period	1,117,808	912,718
Increase/(decrease) in net cash	(1,236,544)	(820,197)

Supplementary notes to the interim condensed consolidated financial statements

1 General information about the Bank and the Capital Group

Bank Handlowy w Warszawie S.A. ("parent company", "the Bank", "Citi Handlowy") Head Office is located in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was established on the strength of Notarial Deed of 13 April 1870 and was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register.

The Bank was registered under entry No. KRS 0000001538 and was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

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

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

The Group is a member of Citigroup Inc. The Bank is a subsidiary of Citibank Overseas Investments Corporation with headquarters in New Castle, USA. CitiBank Overseas Investment Corporation is a subsidiary of Citibank N.A, with headquarters in New York, USA. which is the ultimate parent company of the Bank.

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

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

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

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		31.03.2016	31.12.2015
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A. („DMBH”)	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Entities valued at equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

In the first quarter of 2016 there were no changes in the structure of Group's entities.

2 Declaration of conformity

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting* adopted by European Union and with other applicable regulations.

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the financial year ended 31 December 2015.

In accordance with the Decree of the Ministry of Finance dated 19 February 2009 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2014, No. 133) the Bank is obliged to publish its financial results for the 3 month period ended 31 March 2016 which is deemed to be the current interim financial reporting period.

3 Principles accepted at the composition of the consolidated financial statements

The interim condensed consolidated financial statements of the Group for the first quarter 2016 have been prepared in accordance with accounting principles adopted and summarized in the annual consolidated financial statements of the Group for the financial year ended 31 December 2015.

The preparation of interim condensed consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires from the Management to prepare certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. This financial statement is based on the same estimation rules, which were used in the annual consolidated financial statements of the Group for the financial year ended 31 December 2015, including the reasons and sources of uncertainty as at the balance sheet date.

The most significant estimates made for the 3 month period ended 31 March 2016, concern:

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

The interim condensed consolidated financial statements of the Group have been prepared for the period from 1 January 2016 to 31 March 2016 and for the consolidated statement of financial position as at 31 March 2016. Comparative financial data are presented for the period from 1 January 2015 to 31 March 2015 and for the consolidated statement of financial position as at 31 December 2015.

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

4 Macroeconomic conditions and the situation in money, foreign exchange and capital markets

1. Macroeconomic conditions and the situation in money and foreign exchange markets

Monthly macroeconomic figures indicate a slowdown in economic growth in Q1 2016 from 4.3% yoy in Q4 2015. Domestic demand, including household consumption, remains the primary driver of economic growth while fixed asset investment has slowed down.

Industrial production growth fell to 2.9% yoy in Q1 2016 from 5.6% yoy in Q4 2015 and 4.8% in the entire previous year. At the same time, construction output dropped in the first three months of the year by an average of 11.7% yoy against a decline of just 1.5% in Q4 2015. Industrial production slowdown was accompanied by decelerating exports growth in January and February (2.3% yoy compared to 9.1% yoy in Q4 2015 and 8.4% in the entire 2015). At the same time, however, in the first three months of the year the seasonally adjusted PMI remained at an average level similar to those recorded both in Q3 and Q4 2015. The rebound in PMI in February and March, accompanied by an increase in production indices, new orders and new export orders, is a positive signal for the coming months and suggests that the economic slowdown is most probably temporary. Although we expect a recovery in production in the coming months, household consumption is likely to remain the main growth driver.

In the first three months of the year, retail sales also slowed down to 4.1% yoy from 5.4% in Q4 2015. However, labor market data confirm that consumption prospects are favorable. In Q1 2016, wage growth accelerated to 3.7% from 3.5% in Q4 2015 and in the entire 2015, and employment growth accelerated to 2.5% yoy in Q1 2016 compared to 1.2% in Q4 2015 and 1.1% in the entire previous year. With inflation still deep in negative territory, real payroll fund growth accelerated to 7.3% in Q1 2016. At the same time, while the unemployment rate rose to 10% as at end of March, it decreased by 1.5 p.p. compared to March 2015 and this has been the lowest March figure for more than 20 years. In seasonally adjusted terms, the unemployment rate is close to the historically low level recorded in 2008 after an economic boom period. At the same time, the 500+ (child allowance) program positively affects consumption prospects.

In Q1 2016, average inflation decreased to -0.9% yoy compared to -0.6% yoy in Q4 2015 and -0.7% in Q3 2015. Consumer price growth proved lower than expected primarily due to falling electricity and natural gas prices and slow price growth in the health and communication categories.

Despite the persistent deep deflation, the Monetary Policy Council (MPC) maintained the National Bank of Poland benchmark rate unchanged at 1.50%. During the first three months of the year, the terms of office of eight out of nine members of the MPC expired and new members were appointed to replace them. The new Council, like the previous one, signals that currently there is no need for adjustments to monetary policy.

In Q1 2016, the Polish zloty appreciated slightly against the euro and considerably against the U.S. dollar. The EUR/PLN exchange rate dropped to 4.24 at the end of March from 4.26 at the end of 2015. The USD/PLN exchange rate fell to 3.73 from 3.92 respectively. At the beginning of the year, the zloty clearly lost ground against the euro and the U.S. dollar and it gradually made up for it by the end of March. The scale of appreciation of the zloty against the U.S. dollar resulted from the weakening of the U.S. dollar against the euro to 1.13 at the end of March 2016 from 1.09 at the end of 2015. This resulted partly from reduced expectations concerning the magnitude and pace of interest rate rises in the U.S.

As regards the debt market, yields on the short and long ends of the yield curve declined in Q1 2016. Lower yields were promoted by inflation figures, which surprised on the downside, and by continued expectations of an interest rate cut in connection with the appointment of new members of the Council, but also by declines in yields in core debt markets. The yields of 2Y bonds stood at 1.45% at the end of Q1 2016 compared to 1.58% at the end of 2015. On the other hand, the yield on 10-year bonds dropped to 2.84% at the end of Q1 from 2.95% at the end of 2015. 3M WIBOR amounted to 1.67% at the end of March 2016 compared to 1.72% at year end 2015.

2. Capital market situation

In Q1 2016, positive sentiment prevailed in global stock markets. The rebound in the commodity market and the easing of monetary policy by the Fed contributed to the improvement in climate, also on the Warsaw Stock Exchange. Positive trends in the domestic equity market were also favored by the macroeconomic environment (e.g. very robust PMI and GDP growth readings for Q4 2015).

All main WSE indices recorded increases in the first three months of 2016. The WIG broad market index gained 5.5% compared to the levels reported at year end 2015. The largest rebound was witnessed for the WIG20 blue chip index, which advanced 7.5%. During the same period, the mWIG40 mid-cap index increased by 1.3% while the sWIG80 small-cap one returned 3%.

Among sector subindices, the commodity sector index stood out, gaining 20.0% q/q in Q1. Double-digit rates of return were also recorded by the WIG-Media (12.6% qoq) and WIG-IT (10.0% qoq) indices. Indices of chemical and construction companies were the only ones to record declines in the first three months of 2016 (by 5.7% qoq and 1.0% qoq respectively).

Activity in the IPO market was subdued in Q1 2016. Just as in the corresponding period of 2015, just two new companies were listed on the main WSE market (including one that was moved from the New Connect alternative market); during the same period, shares in five companies were delisted. The value of initial public offerings amounted to less than PLN 73 million (in the previous year it was PLN 29.3 million).

As at the end of March, shares in 484 companies (including 53 foreign ones) were listed on the main WSE market and their overall market value slightly exceeded PLN 1,000 billion (a decrease of PLN 83 million compared to the end of 2015).

Equity market indices as of 31 March 2016

Index	31 march 2016	31 December 2015	Change (%) QoQ	31 March 2015	Change (%) YoY
WIG	49,017.35	46,467.38	5.5%	54,091.32	(9.4%)
WIG-PL	50,037.40	47,412.44	5.5%	55,562.21	(9.9%)
WIG-div	1,035.12	958.66	8.0%	1,208.40	(14.3%)
WIG20	1,997.69	1,859.15	7.5%	2,395.94	(16.6%)
WIG20TR	3,281.89	3,054.29	7.5%	3,808.05	(13.8%)
WIG30	2,218.53	2,075.51	6.9%	2,605.35	(14.8%)
mWIG40	3,612.30	3,567.05	1.3%	3,732.01	(3.2%)
sWIG80	13,605.31	13,211.23	3.0%	13,443.43	1.2%
Sector sub-indices					
WIG-Banks	6,498.60	6,086.60	6.8%	7,660.16	(15.2%)
WIG-Construction	2,896.70	2,926.28	(1.0%)	2,591.26	11.8%
WIG-Chemicals	15,523.48	16,458.51	(5.7%)	13,718.55	13.2%
WIG-Developers	1,587.32	1,513.35	4.9%	1,372.64	15.6%
WIG-Energy	3,114.33	2,928.40	6.3%	4,479.03	(30.5%)
WIG-IT	1,772.31	1,611.73	10.0%	1,570.55	12.8%
WIG-Media	4,437.18	3,942.07	12.6%	4,090.16	8.5%
WIG-Oil & Gas	4,797.12	4,468.32	7.4%	4,068.96	17.9%
WIG-Food	3,541.38	3,420.99	3.5%	2,812.51	25.9%
WIG-Basic materials	2,349.19	1,956.85	20.0%	3,686.98	(36.3%)
WIG-Telecom	824.73	807.99	2.1%	1,039.92	(20.7%)

Source: WSE, DMBH;

Equity and bond trading value and derivatives trading volumes on WSE in the first quarter of 2016

	Q1 2016	Q4 2015	Change (%) QoQ	Q1 2015	Change (%) YoY
Shares (PLN million)*	91,809	105,579	(13.0%)	112,376	(18.3%)
Bonds (PLN million)	472	590	(20.0%)	372	26.9%
Futures (in thousand contracts)	3,701	3,563	3.9%	4,193	(11.7%)
Options (in thousand contracts)	181	248	(27.0%)	208	(13.0%)

*excluding calls

Source: WSE, DMBH

In Q1 2016, trends that reflected decreasing activity in the domestic stock market continued. Equity turnover fell by 13% qoq to PLN 91.8 billion. Compared to the same period of 2015, turnover in this segment decreased by 18.3% yoy.

In the bond segment, the recorded turnover amounted to PLN 472 million, which represents a decrease of 20.0% compared to Q4 2015. In annual terms, turnover in this segment increased by 26.9%.

In the first three months of 2016, the futures segment was the only one to record an increase in turnover on a quarterly basis. During this period, the volume of futures traded in the market increased by 3.9% to 3.7 million units. Nonetheless, compared to Q1 2015, the activity of investors in that market segment decreased by 11.7% yoy.

From January to March 2016, the volume of options traded slightly exceeded 181,000 units and was lower both than in Q4 2015 (-27% qoq) and in annual terms (-13.0% yoy).

5 Banking sector

The figures published by the National Bank of Poland indicate an increase in the volume of loans to corporates by 8.4% yoy in Q1 2016. Their balance amounted to nearly PLN 299 billion at the end of March 2016. The portfolio growth rate has increased steadily since 2013 when a one-year stagnation with growth of oscillating around 1% yoy ended. As regards the term structure, the corporate loan portfolio reported growth across all categories, with the strongest increase recorded in medium-term loans (from one to five years) and those granted for more than five years (8.9% and 8.8% yoy respectively). Loans with short maturities (up to one year) grew by 5.6% yoy. By type structure, the greatest demand was reported for investment loans (11.6% yoy) and those classified as other loans (12.9% yoy). A significant increase was also recorded in real estate loans (7.3% yoy), and authorized overdrafts grew at a rate of 4.8% yoy. According to the figures available at the end of February 2016, the quality of the corporate loan portfolio as measured by the ratio of non-performing loans improved considerably by 1.6 p.p. yoy, falling to 9.6%. That was attributable mainly to improvement in the quality of loans to large enterprises (a decline by 2.6 p.p. to 7.4%), accompanied by an improvement in loans to small and medium-sized enterprises (a decline by 1.6 p.p. to 11.2%). It is clearly visible that these changes have become a trend in the last year, which points to the significantly improved financial condition of companies.

At end of March 2016, the balance of household loans increased to almost PLN 619 billion (4.0% yoy), primarily owing to consumer loans (+6.9% yoy at PLN 9.6 billion) whose volume reached a record level of PLN 148.4 billion. A significant slowdown was visible in the case of real estate loans whose volume grew by barely 2.7% yoy. A strong growth in zloty loan volume (10.3% yoy, PLN 20.7 billion) was offset by a significant decline in the volume of loans denominated in foreign currencies (-6.1% yoy, -PLN 10.6 billion). This is still related to the sharp appreciation of the Swiss franc recorded in January 2015 and the gradual stabilisation of the exchange rate in the past year. The impact of currency fluctuations on mortgage loan volume is gradually diminishing together with the decrease in the share of loans denominated in foreign currencies in the total portfolio of loans secured by real estate (from 46% at the end of March 2015 to 42% at the end of March 2016). The highest percentage increase was recorded in loans to sole proprietors (7.6% yoy) but since the base there was relatively low, this growth was not as impressive in absolute terms (PLN 2.9 billion). The quality of the portfolio of loans to households improved slightly. The NPL ratio for that segment dropped by 0.2 p.p. yoy in February 2016 down to 6.3%, owing both to consumer loans for which the figure decreased by 2.0 p.p. y/y to 12.4% and mortgage loans for which the NPL ratio fell to 2.9% (-0.2 p.p. yoy).

Corporate deposits increased by 6.6% on an annual basis, with a balance of over PLN 231 billion at the end of Q1 2016. Owing to persistently low interest rates, growth was recorded primarily in the current deposit area (14.1% yoy, PLN 17 billion). The volume of funds in time deposits decreased by 3.1% yoy.

In spite of the unfavorable impact of record low interest rates on interest on bank deposits, household deposits continued to grow at a two-digit rate (10% yoy), reaching PLN 668 billion. A difference in the growth rate of current deposits (13.7% yoy) and time deposits (6.3% yoy) was significant, however.

According to PFSA figures, the net result of the banking sector after Q1 2016 dropped by 15.7% compared with the same period of 2015 and amounted to PLN 3.5 billion. The decline in net result was caused by the increase in operating expenses by 10.2% yoy, which was related, inter alia, to the bank tax introduced in February. The increase in expenses was accompanied by a decline in income. Despite the increase in net interest income (5.9% y/y), income from banking activities decreased by 2.0% yoy due to lower net fee income (-5.0% yoy) and a sharp fall in other income (-34.2% yoy). To a large extent, this was due to the high number of one-time transactions executed in Q1 2015.

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

1. Consolidated statement of financial position

As of the end of the first quarter of 2016 total assets stood at PLN 51.5 billion, up by PLN 2.0 billion (or 4.1%) compared to the end of 2015. The change was predominantly due to the following events:

- increase in the balance of debt securities available-for-sale by PLN 3.0 billion, (or 16.6%), due to the increased position in Treasury bonds;
- decrease in net amounts due from customers by PLN 1.5 billion (or 7.7%), primarily due to the total reduction of receivables related to reverse repo transactions by PLN 1.4 billion (or 100.0%). Lending to non-financial sector customers decreased slightly by PLN 0.1 billion (or 0.7%).

Net amounts due from customers

PLN '000	31.03.2016	31.12.2015	Change	
			PLN '000	%
Amounts due from financial sector entities, including:	701,517	2,033,715	(1,332,198)	(65.5%)
Receivables related to reverse repo transactions	-	1,356,247	(1,356,247)	(100.0%)
Amounts due from non-financial sector entities, including:	16,815,815	16,941,756	(125,941)	(0.7%)
Institutional clients*	10,674,406	10,769,227	(94,821)	(0.9%)
Individual clients, including:	6,141,409	6,172,529	(31,120)	(0.5%)
unsecured receivables	4,836,635	4,872,448	(35,813)	(0.7%)
mortgage loans	1,304,774	1,300,081	4,693	0.4%
Total net receivables from customers	17,517,332	18,975,471	(1,458,139)	(7.7%)

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

Amounts due from customers divided into without recognized impairment/with recognized impairment

PLN '000	31.03.2016	31.12.2015	Change	
			PLN '000	%
Without recognized impairment, including:	17,404,398	18,861,253	(1,456,855)	(7.7%)
non-financial sector entities	16,702,744	16,827,402	(124,658)	(0.7%)
institutional clients*	10,629,061	10,729,522	(100,461)	(0.9%)
individual clients	6,073,683	6,097,880	(24,197)	(0.4%)
With recognized impairment, including:	615,397	625,591	(10,194)	(1.6%)
non-financial sector entities	598,261	608,457	(10,196)	(1.7%)
institutional clients*	253,678	269,892	(16,214)	(6.0%)
individual clients	344,583	338,565	6,018	1.8%
Dues related to matured derivative transactions	73,337	74,033	(696)	(0.9%)
Total gross receivables from customers, including:	18,093,132	19,560,877	(1,467,745)	(7.5%)
non-financial sector entities	17,301,005	17,435,859	(134,854)	(0.8%)
institutional clients*	10,882,739	10,999,414	(116,675)	(1.1%)
individual clients	6,418,266	6,436,445	(18,179)	(0.3%)
Impairment, including:	(575,800)	(585,406)	9,606	(1.6%)
dues related to matured derivative transactions	(66,931)	(67,678)	747	(1.1%)
Total net receivables from customers	17,517,332	18,975,471	(1,458,139)	(7.7%)
Impairment coverage ratio with recognized impairment**	82.7%	82.8%		
institutional clients*	84.7%	87.6%		
individual clients	80.4%	78.0%		
Non-performing loans ratio (NPL)	3.4%	3.2%		

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

**Ratio calculated with IBNR impairment

On the liabilities side, amounts due to banks increased by PLN 3.6 billion (or 52.1%), which was primarily due to a higher level of term deposits. At the same time financial liabilities held-for-trading dropped by PLN 1.5 billion (or 45.5%), mainly due to the decline in the liabilities incurred by short sale of securities.

Amounts due to customers

PLN '000	31.03.2016	31.12.2015	Change	
			PLN '000	%
Current accounts, including:	18,957,845	20,421,149	(1,463,304)	(7.2%)
financial sector entities	424,306	226,438	197,868	87.4%
non-financial sector entities, including:	18,533,539	20,194,711	(1,661,172)	(8.2%)
institutional clients*, including:	10,880,975	13,120,289	(2,239,314)	(17.1%)
budgetary units	839,748	2,665,606	(1,825,858)	(68.5%)
individual clients	7,652,564	7,074,422	578,142	8.2%
Term deposits, including:	11,673,618	10,854,392	819,226	7.5%
financial sector entities	3,881,338	3,154,694	726,644	23.0%
non-financial sector entities, including:	7,792,280	7,699,698	92,582	1.2%
institutional clients*, including:	6,367,088	6,032,088	335,000	5.6%
budgetary units	1,197,461	59,384	1,138,077	-
individual customers	1,425,192	1,667,610	(242,418)	(14.5%)
Total customers deposits	30,631,463	31,275,541	(644,078)	(2.1%)
Other amounts due to customers	119,445	310,762	(191,317)	(61.6%)
Total amounts due to customers	30,750,908	31,586,303	(835,395)	(2.6%)

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

2. Consolidated income statement

In the first quarter of 2016 the Group delivered a consolidated net profit of PLN 104.4 million, down by PLN 112.7 million (or 51.9%) compared to the first quarter of 2015. At the same time the Group's revenue dropped by PLN 141.9 million (or 24.0%) to PLN 449.1 million.

The main determinants of the Group's operating result in the first quarter of 2016 when compared to the first quarter of 2015 were the following:

- net interest income of PLN 247.4 million versus PLN 256.8 million in Q1, 2015 – down by PLN 9.4 million (or 3.7%), primarily due to higher interest expenses on amounts due to banks by PLN 8.2 million (or 112.5%) as a result of volume growth;

Net interest income

PLN '000	01.01 - 31.03.2016	01.01 - 31.03.2015	Change	
			PLN '000	%
Interest and similar income from:				
Balances with the Central Bank	4,409	4,623	(214)	(4.6%)
Amounts due from banks	5,345	9,478	(4,133)	(43.6%)
Amounts due from customers, in respect of:	199,893	202,916	(3,023)	(1.5%)
financial sector	4,457	8,431	(3,974)	(47.1%)
non-financial sector, including:	195,436	194,485	951	0.5%
credit cards	66,546	63,291	3,255	5.1%
Debt securities available-for-sale	79,748	60,781	18,967	31.2%
Debt securities held-for-trading	17,816	32,276	(14,460)	(44.8%)
	307,211	310,074	(2,863)	(0.9%)
Interest expense and similar charges on:				
Amounts due to banks	(15,547)	(7,316)	(8,231)	112.5%
Amounts due to financial sector entities	(11,883)	(13,575)	1,692	(12.5%)
Amounts due to non-financial sector entities	(25,875)	(31,828)	5,953	(18.7%)
Loans and advances received	(269)	(579)	310	(53.5%)
Derivative instruments in hedge accounting	(6,251)	-	(6,251)	-
	(59,825)	(53,298)	(6,527)	12.2%
Net interest income	247,386	256,776	(9,390)	(3.7%)

- net fee and commission income of PLN 142.6 million versus PLN 151.4 million in Q1, 2015 – down by PLN 8.8 million (or 5.8%) stemming primarily from a lower result on insurance and investment products distribution by PLN 6.2 million (or 19.3%) due to reduced interest in investment products resulting from market environment. In the area of the Markets business the fee and commission income from brokerage operations decreased (as a result of the drop in the turnover on the WSE) and the fee and commission income from custody services also declined;

Net fee and commission income

PLN '000	01.01–	01.01–	Change	
	31.03.2016	31.03.2015	PLN '000	%
Fee and commission income				
Insurance and investment products distribution	26,014	32,230	(6,216)	(19.3%)
Payment and credit cards	39,437	45,103	(5,666)	(12.6%)
Payment orders	25,576	27,732	(2,156)	(7.8%)
Custody services	27,887	31,818	(3,931)	(12.4%)
Cash loans fees	539	678	(139)	(20.5%)
Brokerage activity	10,086	13,555	(3,469)	(25.6%)
Clients' cash on account management services	6,198	7,296	(1,098)	(15.0%)
Guarantees granted	4,487	3,614	873	24.2%
Financial liabilities granted	1,334	1,547	(213)	(13.8%)
Other	19,958	9,778	10,180	104.1%
	161,516	173,351	(11,835)	(6.8%)
Fee and commission expense				
Payment and credit cards	(6,157)	(9,121)	2,964	(32.5%)
Brokerage activity	(3,370)	(4,096)	726	(17.7%)
Fees paid to the National Depository for Securities (KDPW)	(4,460)	(4,873)	413	(8.5%)
Brokerage fees	(1,258)	(1,291)	33	(2.6%)
Other	(3,631)	(2,563)	(1,068)	41.7%
	(18,876)	(21,944)	3,068	(14.0%)
Net fee and commission income				
Insurance and investment products distribution	26,014	32,230	(6,216)	(19.3%)
Payment and credit cards	33,280	35,982	(2,702)	(7.5%)
Payment orders	25,576	27,732	(2,156)	(7.8%)
Custody services	27,887	31,818	(3,931)	(12.4%)
Cash loans fees	539	678	(139)	(20.5%)
Brokerage activity	6,716	9,459	(2,743)	(29.0%)
Clients' cash on account management services	6,198	7,296	(1,098)	(15.0%)
Guarantees granted	4,487	3,614	873	24.2%
Financial liabilities granted	1,334	1,547	(213)	(13.8%)
Fees paid to the National Depository for Securities (KDPW)	(4,460)	(4,873)	413	(8.5%)
Brokerage fees	(1,258)	(1,291)	33	(2.6%)
Other	16,327	7,215	9,112	126.3%
Net fee and commission income	142,640	151,407	(8,767)	(5.8%)

- net income on trading financial instruments and revaluation of PLN 38.2 million versus PLN 85.7 million in Q1, 2015, down by PLN 47.4 million and net gain on debt investment securities available-for-sale in the amount of PLN 6.6 million versus PLN 98.5 million in Q1, 2015, down by PLN 91.8 million as a result of adverse changes in the market environment;
- result on other operating income and expenses in the amount of PLN 10.1 million versus PLN (1.3) million in Q1, 2015 – up by PLN 11.4 million due to one-off events, such as the reimbursement of VAT and the release of the litigation provisions;
- operating expenses and overheads including depreciation expenses of PLN 313.1 million compared to PLN 312.9 million in the corresponding period of the previous year – slightly costs increase mainly due to higher staff expenses increased by PLN 1.0 million (or 0.7%), due to higher provisions for unused accrued leave and higher retirement plan costs;

General administrative expenses and depreciation expense

PLN '000	01.01 - 31.03.2016	01.01 - 31.03.2015	Change	
			PLN '000	%
Staff expenses	(151,352)	(150,327)	(1,025)	0.7%
Remuneration costs	(105,928)	(103,563)	(2,365)	2.3%
Bonuses and rewards	(23,186)	(24,794)	1,608	(6.5%)
Social security costs	(22,238)	(21,970)	(268)	1.2%
Administrative expenses	(143,156)	(145,011)	1,855	(1.3%)
Telecommunication fees and hardware purchase costs	(46,184)	(45,617)	(567)	1.2%
Costs of external services, including advisory, audit, consulting services	(15,739)	(18,270)	2,531	(13.9%)
Building maintenance and rent costs	(16,985)	(19,064)	2,079	(10.9%)
Marketing costs	(5,198)	(4,039)	(1,159)	28.7%
Costs of cash management services, costs of cleaning services and other transaction costs	(9,573)	(10,658)	1,085	(10.2%)
Costs of external services related to distribution of banking products	(4,032)	(4,962)	930	(18.7%)
Postal services, office supplies and printmaking costs	(2,827)	(3,092)	265	(8.6%)
Training and education costs	(395)	(763)	368	(48.2%)
Banking supervision costs	(2,596)	(2,605)	9	(0.3%)
Bank Guarantee Funds costs	(17,315)	(16,836)	(479)	2.8%
Other expenses	(22,312)	(19,105)	(3,207)	16.8%
Depreciation and amortization	(18,549)	(17,592)	(957)	5.4%
General administrative expenses and depreciation expense, total	(313,057)	(312,930)	(127)	0.0%

- positive result on impairment due to financial assets and provisions for granted financial liabilities and guarantees of PLN 5.5 million compared to the negative result on impairment in Q1, 2015 in the amount of PLN 3.5 million. The Institutional Banking segment reported a decrease in net impairment losses by PLN 20.8 yoy, mainly due to a higher level of release of the provisions for individually assessed impaired loans. In the Consumer Banking segment reported net impairment write-offs of PLN 12.2 million compared to PLN 0.4 in Q1, 2015. The increase in net impairment losses in Q1, 2016 is caused by diminished expectations of recoveries from the impaired portfolio along with the increase in the average age of this portfolio.

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

PLN '000	01.01 - 31.03.2016	01.01 - 31.03.2015	Change	
			PLN '000	%
Impairment allowances for financial assets				
Amounts due from banks	(2,060)	(526)	(1,534)	291.6%
Amounts due from customers	(40,469)	(52,815)	12,346	(23.4%)
Receivables from matured derivative transactions	(7)	(370)	363	(98.1%)
Other	-	(274)	274	(100.0%)
	(42,536)	(53,985)	11,449	(21.2%)
Reversals of impairment allowances for financial assets				
Amounts due from banks	2,944	2,947	(3)	(0.1%)
Amounts due from customers	35,501	46,800	(11,299)	(24.1%)
Receivables from matured derivative transactions	754	13	741	-
Recoveries from sold debts	8,125	100	8,025	-
Other	1,153	-	1,153	-
	48,477	49,860	(1,383)	(2.8%)
Net impairment allowances financial assets	5,941	(4,125)	10,066	-
Created provisions for granted financial and guarantee commitments	(5,411)	(7,668)	2,257	(29.4%)
Releases of provisions for granted financial and guarantee commitments	4,989	8,286	(3,297)	(39.8%)
Net impairment allowances provisions for granted financial and guarantee commitments	(422)	618	(1,040)	-

PLN '000	01.01 –	01.01 –	Change	
	31.03.2016	31.03.2015	PLN '000	%
Net impairment allowances financial assets and provisions for granted financial liabilities and guarantees	5,519	(3,507)	9,026	-

- pursuant to the Act on tax imposed on certain financial institutions, effective from 1 February 2016 bank assets are subject to tax of 0.0366% per month. The tax base will be the entity's assets less PLN 4 billion, own funds and T-securities. In the first quarter of 2016, total charge to the income statement in this respect was PLN 13.1m.

3. Financial Ratios

In the first quarter of 2016, the key efficiency ratios were as follows:

Total financial ratios	Q1 2016	Q1 2015
ROE *	8.2%	14.1%
ROA**	1.0%	1.9%
Cost/Income	73%	53%
Loans to non-financial sector/Deposits from non-financial sector	64%	72%
Loans to non-financial sector/Total assets	33%	33%
Net interest income/Revenue	55%	43%
Net fee and commission income/Revenue	32%	26%

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

** Sum of net profit for the last four quarters to the average assets for the last four quarters.

Group employment*

In full time job equivalents (FTE)	01.01 –	01.01 –	Change	
	31.03.2016	31.03.2015	FTEs	%
Average employment in the first quarter	3,926	4,184	(258)	(6.2%)
Employment at the end of quarter	3,872	4,185	(312)	(7.5%)

*does not include employees on parental and unpaid leave

As of March 31, 2016 the Bank's total capital adequacy ratio was 17.5%, up by 0.4 point versus the end of 2015. The increase was due to the increase in the Group's own funds by PLN 109 million (or 2.3%) mainly as a result of the decrease negative valuation of the debt securities portfolio and the decrease in the total capital requirement by PLN 4 million (or 0.2%).

Total capital adequacy ratio*

PLN '000	31.03.2016	31.12.2015
I Tier I capital	4,889,751	4,781,008
II Total capital requirements, including:	2,234,483	2,238,956
credit risk capital requirements	1,705,338	1,685,320
counterparty risk capital requirements	69,781	78,682
Credit valuation adjustment capital requirements	31,370	34,059
capital requirements for excess of exposures' concentration limit and large exposures' limit	17,237	16,418
total market risk capital requirements	104,036	86,544
operational risk capital requirements	306,721	337,933
Tier I capital ratio	17.5%	17.1%

*Capital Adequacy Ratio was calculated 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.

7 Segment reporting

Operating segment is a separable component of the Group engaged in business activity, generating income and incurring expenses (including those on intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board of dominant unit the chief operating decision maker of the Group, in order to allocate resources and assess its performance.

The Group is managed at the level of two operating segments – Institutional Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its results is based on Group's accounting policies, including intragroup transactions between segments.

The allocation of Group's assets, liabilities, income and expenses to operating segments was made on the basis of internal information prepared for management purposes. Transfer of funds between Group's segments is based on prices derived from market rates. The transfer prices are calculated using the same rules for both segments and any difference results solely from maturity and currency structure of assets and liabilities. The basis for assessment of the segment performance is gross profit or loss.

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

Institutional Banking

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

Consumer Banking

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

Consolidated income statement of the Group by business segment

For the period	01.01. – 31.03.2016			01.01. – 31.03.2015		
	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
<i>PLN '000</i>						
Net interest income	107,431	139,955	247,386	111,166	145,610	256,776
Internal interest income, including:	(11,133)	11,133	-	(14,392)	14,392	-
Internal income	-	11,133	11,133	-	14,392	14,392
Internal expenses	(11,133)	-	(11,133)	(14,392)	-	(14,392)
Net fee and commission income	65,956	76,684	142,640	67,295	84,112	151,407
Dividend income	1	-	1	-	-	-
Net income on financial instruments and revaluation	30,357	7,873	38,230	78,448	7,225	85,673
Net gain on debt investment securities available-for-sale	6,624	-	6,624	98,458	-	98,458
Net gain/(loss) on hedge accounting	4,157	-	4,157	-	-	-
Net other operating income	9,077	997	10,074	5,318	(6,583)	(1,265)
General administrative expenses	(128,615)	(165,893)	(294,508)	(131,467)	(163,871)	(295,338)
Depreciation and amortization	(5,538)	(13,011)	(18,549)	(5,797)	(11,795)	(17,592)
Profit on sale of other assets	9	-	9	4	-	4
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	17,679	(12,160)	5,519	(3,080)	(427)	(3,507)
Operating income	107,138	34,445	141,583	220,345	54,271	274,616
Share in net profits of entities valued at equity method	(1)	-	(1)	12	-	12
Tax on certain financial institutions	(9,645)	(3,492)	(13,137)	-	-	-
Profit before tax	97,492	30,953	128,445	220,357	54,271	274,628
Income tax expense			(24,074)			(57,591)
Net profit			104,371			217,037

State as at	31.03.2016			31.12.2015		
	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
<i>PLN '000</i>						
Total assets, including:	45,106,332	6,438,679	51,545,011	43,034,095	6,472,697	49,506,792
Equity investments valued at equity method	7,767	-	7,767	7,768	-	7,768

State as at	31.03.2016			31.12.2015		
	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
PLN '000						
Non-current assets held-for-sale	-	1,928	1,928	-	1,928	1,928
Total liabilities and shareholders' equity, including:	39,853,719	11,691,292	51,545,011	38,188,084	11,318,708	49,506,792
Liabilities	34,393,740	10,101,077	44,494,817	32,930,579	9,725,557	42,656,136

8 Activities of the Group

1. Institutional Banking

1.1. Summary of segment results

PLN '000	Q1 2016	Q1 2015	Change	
			PLN '000	%
Net interest income	107,431	111,166	(3,735)	(3.4%)
Net fee and commission income	65,956	67,295	(1,339)	(2.0%)
Net income on dividends	1	-	1	-
Net income on trading financial instruments and revaluation	30,357	78,448	(48,091)	(61.3%)
Net gain on debt investment securities available-for-sale	6,624	98,458	(91,834)	(93.3%)
Net gain/(loss) on hedge accounting	4,157	-	4,157	-
Net other operating income	9,077	5,318	3,759	70.7%
Total income	223,603	360,685	(137,082)	(38.0%)
General administrative expenses and depreciation	(134,153)	(137,264)	3,111	(2.3%)
Profit on sale of other assets	9	4	5	125.0%
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	17,679	(3,080)	20,759	(674.0%)
Share in net profits of entities valued at equity method	(1)	12	(13)	(108.3%)
Tax on certain financial institutions	(9,645)	-	(9,645)	-
Profit before tax	97,492	220,357	(122,865)	(55.8%)
Cost/Income	60%	38%		

The key highlights that impacted the gross profit of the Institutional Banking Segment in Q1, 2016 when compared to the corresponding period of 2015 were as follows:

- decrease in net interest income as a result of the increased interest expenses due to amounts due to banks in connection with the increase in volumes partially offset by higher interest income on amounts from non-financial sector customers;
- decline in net fee and commission income, mainly in the area of brokerage operations in connection with the decline in turnover on the WSE and in the area of payment and credit cards;
- decline in net income from trade financial instruments and revaluation due to adverse changes in the market environment;
- decrease in net income on debt investment securities;
- increase in the result on other operating income and expenses due to one-off events, i.e. reimbursement of VAT;
- decrease in net impairment losses (reversal of net impairment losses of PLN 17.7 million in Q1, 2016 compared to net impairment losses of PLN 3.1 million in the corresponding period of the previous year) was mainly due to higher levels of the provisions for individually assessed impaired loans.

1.2. Institutional Bank and the Capital Markets

Institutional Bank

As regards institutional banking, the Bank provides comprehensive financial services 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.

At the end of Q1 2016, the Bank served 6.6 thousand institutional clients (this category includes strategic clients, global clients and commercial bank clients), a decrease of 5% compared to the 7.0 thousand clients served at the end of Q1 2015. Within the framework of Commercial Bank (small and medium-sized enterprises, large companies and the public sector), the Bank served 4.3 thousand clients at the end of Q1 2016, a decrease of 10% compared to the 4,8 thousand clients served at the end of Q1 2015.

What institutional banking clients have in common is their demand for advanced financial products and advisory related to financial services. In that area, the Bank provides coordination of the investment banking, treasury and cash management products offered, and prepares loan offers involving diverse forms of financing. The innovative, competitive and modern financing structures on offer rely on a combination of the Bank's expertise and experience and its cooperation within the global Citigroup structure.

The table below presents balances of assets and liabilities in individual segments according to the management reporting format.

Assets*

	31.03.2016	31.12.2015	31.03.2015	Change		Change	
				(1)/(2)	(1)/(3)		
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises**, including:	4,751	4,433	4,512	318	7%	239	5%
SMEs	1,796	1,797	1,856	(1)	(0%)	(60)	(3%)
MMEs	2,955	2,636	2,656	319	12%	299	11%
Public Sector	125	95	176	30	32%	(51)	(29%)
Global Clients	2,598	3,370	3,572	(772)	(23%)	(974)	(27%)
Corporate Clients	3,685	3,379	2,206	306	9%	1,479	67%
Other***	28	12	60	16	133%	(32)	(53%)
Total Institutional Banking	11,187	11,289	10,526	(102)	(1%)	661	6%

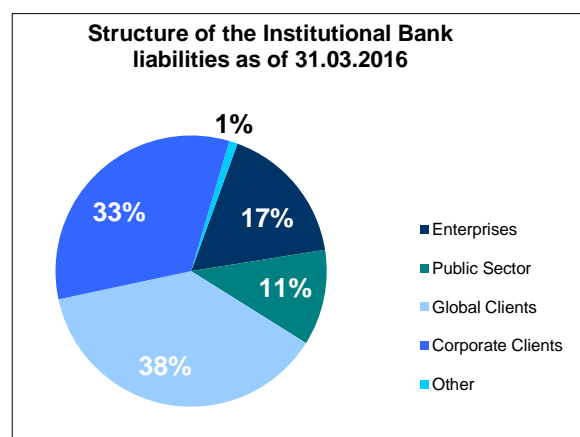
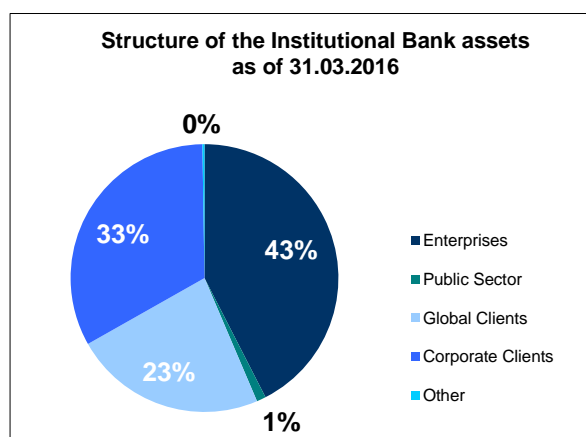
Liabilities*

	31.03.2016	31.12.2015	31.03.2015	Change		Change	
				(1)/(2)	(1)/(3)		
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises**, including:	3,518	3,702	3,008	(184)	(5%)	510	17%
SMEs	2,465	2,605	2,141	(140)	(5%)	324	15%
MMEs	1,053	1,097	867	(44)	(4%)	186	21%
Public Sector	2,373	3,181	2,223	(808)	(25%)	150	7%
Global Clients	7,845	9,442	5,870	(1,597)	(17%)	1,975	34%
Corporate Clients	6,836	5,368	5,419	1,468	27%	1,417	26%
Other***	207	197	372	10	5%	(165)	(44%)
Total Institutional Banking	20,779	21,890	16,892	(1,111)	(5%)	3,887	23%

* In 2015 there was a change in the classification of customers by segment.

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



Key transactions and achievements in the area of Institutional Banking in Q1 2016:

- In the Strategic and Global Clients segment:
 - The Bank, in cooperation with another bank, signed an agreement with the leader in the Polish postal services market concerning a short- and medium-term bond issuance program amounting to up to PLN 700 million. The Bank acts as, *inter alia*, Arranger and Dealer;
 - Successful tendering for the provision of comprehensive banking services to a major player in the tobacco market;
 - Adding and executing 230,000 direct debit transactions in Q1 2016; as a result, the Bank achieved a market share of 46% with respect to transactions of this type in Poland;
 - The Bank now provides banking services to an Emerging Market Champion from the automotive industry that used to be provided by other banks;
 - The issuance of 500 business cards to one of the leading clients from the insurance industry;
 - Signing an agreement concerning a supplier finance program with one of FMCG market leaders;
 - Establishing a new relationship with a customer from the investment fund industry; the Bank acts as a custodian;
 - Establishing a new relationship with a company from the real estate industry;
 - Establishing a new relationship and commencing cooperation with respect to handling bank accounts and executing FX transactions with a company from the chemical;
 - Establishing a new relationship and commencing cooperation with respect to handling bank accounts and executing FX transactions with a company from the chemical industry, which plans to invest up to EUR 100 million in the Wrocław special economic zone.
- In the Commercial Bank segment, the Bank granted:
 - a long-term loan amounting to PLN 120 million to a leading manufacturer of ceramic tiles;
 - a long-term loan amounting to PLN 95 million to a producer of coke, coal derivatives and coal gas;
 - an operating loan amounting to PLN 90 million to a producer of cold-rolled flat steel products;
 - a long-term loan amounting to PLN 27.6 million and a PSE line amounting to PLN 4.3 million to a stationery manufacturer;
 - a loan commitment amounting to PLN 12.8 million to a manufacturer of bread, fresh pastry goods and cakes;
 - a revolving loan amounting to PLN 10 million to a producer of lead, zinc and tin;
 - a loan commitment amounting to PLN 10 million to a manufacturer of metal containers;
 - an energy efficiency loan amounting to PLN 10.1 million.

Since the beginning of 2016, Commercial Bank has continued its flagship series of meetings with corporate clients (Market Pulse – Macroeconomic Meetings). The Sub-Sector of Financial Markets together with the Office of the Bank's Chief Economist presented macroeconomic forecasts for the global and Polish economies to clients. The meetings were held in Koszalin, Białystok, Poznań and Warsaw and were an excellent opportunity to conduct substantive talks with clients and hold meetings with Commercial Bank, Global Subsidiaries Group and Sub-Sector of Financial Markets employees. The meetings were attended by a total of more than 80 customers.

In Poznań, the Bank continued its interactive financial risk management workshops (CitiFX Hedge Game), which are a unique proposition in the Polish market, enabling customers to learn how to efficiently manage financial risk using derivative instruments. The training was attended by 25 clients. The Bank already conducted this training in the last quarter of 2015 for clients in Katowice, Gdańsk, Kraków and Warsaw. The workshops enjoyed exceptionally high attendance (more than 130 existing customers).

In March 2016, Commercial Bank invited its corporate clients who use the CitiDirect system on a daily basis to an all-day CyberSecurity Global Workshop devoted to cybersecurity and secure electronic payments. The conference, which was attended by almost 60 clients from more than 30 companies, was held as part of a series of workshops on cybersecurity conducted by Citigroup worldwide. Citi Handlowy experts discussed the risks and challenges related to information security, how to prevent fraud and how banks cooperate in this respect. The conference partner was the CERT Polska / NASK company, which has extensive experience in the field of cybersecurity. Its representative prepared a speech full of practical information for our clients; those present learned, *inter alia*, how certain types of fraud are perpetrated and how to reduce the related risk. A large group of clients engaged in further talks with the Bank aimed at developing solutions that would enhance the security of daily settlements.

Client acquisition: in the Commercial Bank segment, the Bank acquired 96 new clients in Q1 2016, including 7 Large Enterprises, 59 Small and Medium-sized Enterprises, and 30 Public Sector Clients.

Activity and business achievements of the Treasury Division

- In January 2016, the Bank once again won the competition for Treasury Securities Dealers held by the Ministry of Finance. The Bank has been consistently involved in the promotion of the Polish market and has actively contributed to the development of the domestic debt issuance policy for several years. This role has been 20

entrusted to us for the fourth time in a row, which confirms our leadership in this market segment;

- According to the "Rating & Market" report by Fitch Ratings, at the end of Q1 2016 the Bank held a 15% market share as an arranger of bond and certificate of deposit issues for banks, ranking second among market participants;
- The CitiFX Pulse online platform remains very popular among clients. Nearly 80% of all foreign exchange transactions are executed using this channel. The tool is being constantly developed and expanded to include new functionalities.
- In Q1 2016, the Bank was also active in the market of debt securities by participating in the following transactions:
 - The conclusion of a new bond issuance program for a company owned by the Treasury, amounting to up to PLN 700 million;
 - Joining the existing program by a leasing company from the Issuer's group within the framework of a bond issuance program amounting to up to PLN 500 million.

Transactional banking

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

- Cash management products: deposits and current accounts, liquidity management products and e-banking;
- Card products;
- Payment and receivables processing: Direct Debit and SpeedCollect;
- Cash products;
- EU-oriented advisory services; and
- Trade finance products.

Other Transactional Banking business events and achievements in Q1 2016:

- **Electronic banking**

In Q1 2016, further work was carried out in order to provide the Bank's clients with a number of new solutions in the area of electronic banking. The most significant change is making available an improved reporting module in the CitiDirect system, which enables more efficient access to file import and export functions.

The remaining figures relating to electronic banking:

- as at end Q1 2016, the number of institutional clients activated in the CitiDirect Internet banking system amounted to 3,200, and those activated in the CitiDirect EB (CitiDirect Banking Evolution) system numbered 3,200 as well;
- the number of institutional clients actively using the system remained at a high level of nearly 4,500 as at end Q1 2016;
- the number of clients with mobile access to both aforementioned electronic banking systems was over 3,200 as at end Q1 2016;
- the number of transactions processed electronically through the CitiDirect and CitiDirect EB systems was nearly 6.3 million in Q1 2016.

- **Deposits and current accounts**

In Q1 2016, a significant rise in balances in corporate client accounts was observed as a result of the activation of both existing and new clients (acquired in Q4 2015). In Q1 2016, average monthly balances maintained in current accounts with the Bank grew by 30% in relation to the corresponding period of 2015; growth in the balances maintained in PLN accounts reached 32%, and in USD accounts – 39% compared to the corresponding period of 2015.

- **Prepaid cards**

In Q1 2016, the Bank reported a significant increase (18%) in the value of non-cash transactions executed with prepaid cards compared to the corresponding period of 2015. The number of non-cash transactions increased by 24%. The Bank also increased the number of issued cards by more than 7% compared to Q1 2015.

- **International fund transfers**

The Bank boasts a comprehensive and very extensive settlement offering in over 130 currencies throughout the world. Integrated settlement services include a compilation of remote access channels and product offerings in the area of international settlements. In response to the clients' needs, the Bank introduced a multi-currency account which enables clients to execute fund transfers in exotic currencies in a simple, convenient and effective manner with no need for opening foreign currency accounts and maintaining local accounts abroad. The Bank's offering provides a unique approach in the Polish market given the range of available currencies.

- **Direct debit**

The Bank provides its customers with comprehensive receivables processing. The direct debit market is a segment where services of this type are provided. In Q1 2016, the Bank reported a significant increase (28%) in the number of processed transactions compared to Q1 2015, settling the largest number of transactions in Poland in the capacity of the creditor's bank. In this manner, Citi Handlowy strengthened its position as the market leader in the direct debit segment.

Additionally, Citi Handlowy introduced an innovative solution combining the SEPA Direct Debit product with the Citi FX currency exchange platform. It is a novel solution in the Polish market and an important element that makes the Bank's offerings stand out among the competition. The SEPA Direct Debit combined with the Citi FX Pulse currency exchange is ideal for companies that perform regular settlements with counterparties from the Eurozone (import, logistics and transport, administrative charges and local taxes). The solution enables, inter alia, full payment automation and reduces the risk of delays.

- **Speedcollect**

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of bulk payments. The virtual account functionality allows the creditor's important information to be encoded in the account number such as e.g. the number of the counterparty or the number of its own commercial unit that accounts for the revenue. An extension of the functionality of virtual accounts is SpeedCollect Plus, a service that allows not only to automatically identify and report the amounts credited to the account, but also to reconcile these transactions with additional information provided by the creditor, providing comprehensive information about the settlements. The volume of transactions remains equally high as in the same period of 2015.

- **EU-oriented advisory services**

In Q1 2016, the Bank prepared its strategy for the EU financial perspective 2014–2020, within the framework of which banks will be important partners in the process of distributing EU funds and financing the investment projects co-financed with EU subsidies.

A new initiative was to establish cooperation with Industry Clusters. EU Office representatives conducted presentations on the logical path of projects involving research institutes in the new budget perspective 2014–2020, which resulted in individual consultations regarding enterprise investment plans. The meeting formula adopted enabled the Bank's offerings to be presented to a wide range of prospective and existing customers.

In Q1 2016, the Bank processed applications for technological bonuses in connection with granting loans for Technological Innovations.

- **Trade finance products**

In Q1 2016, in the Trade Finance area the Bank reported one of the highest asset levels related to Supplier Finance Programs. This was the result of strong involvement by the sales force, which actively promoted the benefits of this solution to suppliers. Thanks to these efforts, a new contract was signed with one of the global companies operating in the FMCG area.

Bank also initiated a new project, which involves preparing assumptions for financing trade receivables under the portfolio approach, mainly for clients from the telecommunications and power industries.

Custody services

The Bank is the leader of the domestic custodian bank market. It offers custody services both to foreign institutional investors and domestic financial entities, in particular pension funds, investment funds and unit-linked funds.

As at 31 March 2016, the Bank maintained 10,699 securities accounts.

At the same time, the Bank was the custodian for five open-ended pension funds (OFE): MetLife OFE, Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE, Nordea OFE, and for five voluntary pension funds: MetLife DFE, Nationale-Nederlanden DFE, DFE Pekao, Generali DFE and Nordea DFE in liquidation and the PFE Orange Polska occupational pension fund.

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

Brokerage activities

The Group pursues brokerage activities on the capital market via Dom Maklerski Banku Handlowego S.A. ("DMBH") which is wholly owned by the Bank.

In Q1 2016, DMBH brokered session transactions representing 10.0% of equity turnover in 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 8.9 billion and declined by 21.7% in relation to the corresponding period of the preceding year.

Q1 2016 saw continued increased activity by retail customers using the CitiFX Stocks transactional platform, which enables trading in shares and ETF instruments listed on major foreign exchanges as well as OTC FX instruments using financial leverage. Owing to advisory services, which are increasingly popular among CPC (Citi Private Client) clients, revenues from fees in foreign markets offset the decrease in client activity on the Warsaw Stock Exchange to a significant extent. In Q1 2016, the amount of revenue realized in the domestic market was also significantly supported by the very successful subscriptions for closed-end investment fund certificates organized in cooperation with the Bank and the sale of Treasury bonds. The result achieved by DMBH in the latter category allowed the brokerage house to reach²²

the second place in the “share in bond trading on the Warsaw Stock Exchange” category.

At the end of Q1 2016, DMBH was the Market Maker for the shares of 64 companies listed on the Warsaw Stock Exchange (including 20 included in the WIG20 blue chip index). That represented 13.22% of all shares traded on the WSE main market.

DMBH maintained 10,800 investment accounts at the end of Q1 2016, an increase of 9.1% compared to the corresponding period of 2015 and 2.9% compared to the end of Q4 2015. The number of accounts increased primarily due to a steady growth in the number of brokerage service agreements for FX and foreign market services performed via the CitiFX Stocks platform.

In Q1 2016, DMBH carried out a single capital market transaction:

- Stalprodukt S.A. – DMBH acted as an intermediary in the tender offer process related to the share buyback program implemented by Stalprodukt S.A.; the value of the second tranche of the program amounted to PLN 89.6 million (February 2016).

The dominant group of DMBH clients in terms of revenue are institutional clients (both domestic and foreign) whose activity in the stock market depends on the business climate and the inflow of new capital.

Summary Income Statement and Balance Sheet

Company's Name	Headquarter	% of authorized capital held by the Bank	Total assets	Total equity	Net financial result for the period of
			31.03.2016	31.03.2016	01.01-31.03.2016
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	777,811	115,714	1,293

A key risk to DMBH operations in the coming quarters may be posed by potential changes to the open-ended pension fund system, which may lead to a reduction in demand for the shares of companies listed on the WSE from this client segment. In addition, the lack of significant inflows of new money to domestic equity funds has a considerable impact on the activity of this investor segment in the equity market.

Leasing activities

In connection with the March 2013 decision of the Bank's Management Board to limit the scope of leasing activities of the Bank's Group, the scope of activities of Handlowy Leasing Sp. z o.o. (“Handlowy-Leasing” or “HL”) has been restricted to handling the lease agreements entered into by 30 April 2013. No new leasing agreements were concluded after that date by HL. 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 partnership with organizations from outside its Group. Currently, leasing services are provided under a cooperation agreement by two partners: Europejski Fundusz Leasingowy S.A. and CorpoFlota Sp. z o.o.

Summary Income Statement and Balance Sheet

Company's Name	Headquarters	% of authorized capital held by the Bank	Total assets	Total equity	Net financial result for the period of
			31.03.2016	31.03.2016	01.01-31.03.2016
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	171,303	145,162	6,035

2. Consumer Banking

2.1. Summary of the segmental results

PLN '000	Q1 2016	Q1 2015	Change	
			PLN '000	%
Net interest income	139,955	145,610	(5,655)	(3.9%)
Net fee and commission income	76,684	84,112	(7,428)	(8.8%)
Net income on trading financial instruments and revaluation	7,873	7,225	648	9.0%
Net other operating income	997	(6,583)	7,580	-
Total income	225,509	230,364	(4,855)	(2.1%)
General administrative expenses and depreciation	(178,904)	(175,666)	(3,238)	1.8%
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(12,160)	(427)	(11,733)	-

PLN '000	Q1 2016	Q1 2015	Change	
			PLN '000	%
Tax on certain financial institutions	(3,492)	-	(3,492)	-
Profit before tax	30,953	54,271	(23,318)	(43.0%)
Cost/Income	79%	76%		

The key highlights that impacted the gross profit of the Consumer Bank in Q1, 2016 when compared to the corresponding period of 2015 were as follows:

- decrease in net interest income due to reduced interest rates on asset products (in Q1, 2016 the interest rate was lower by 2 pp compared to the corresponding period of the previous year) due to the changes in market interest rates partially offset by a 5% growth in asset products balances in Q1, 2015 and a decline in interest expenses achieved despite a 16% increase in the balances of deposits compared to Q1, 2015 as a result of the reduction in interest rates to adjust them to the market interest rates (interest rates were reduced mainly in the area of savings accounts and term deposits);
- decrease in net fee and commission income as a consequence of the decline in the market sentiment partially offset by the adjustment of the table of fees and commissions to the customer segmentation model in accordance with the Bank's strategy, i.e. preferential conditions exclusively for customers having a deep relationship with the Bank (no fee for account maintenance, preferential FX rates and investment advisory free of charge);
- increase in the result on other operating income and expenses in connection with the release of litigation provisions;
- net impairment due to financial assets and provisions for granted financial liabilities and guarantees of PLN 12.2 million in Q1, 2016 versus net impairment losses of PLN 0.4 million in Q1, 2015 is primarily due to diminished expectations of recoveries from the impaired portfolio along with the increase in the average age of this portfolio.

2.2. Selected business data

PLN '000	Q1 2016	Q4 2015	Q1 2015	Change QoQ	Change YoY
Number of individual customers	679.7	682.9	709.2	(3.2)	(29.5)
Number of current accounts, including:	459.1	464.5	473.5	(5.4)	(14.4)
number of operating accounts	286.4	293.4	308.8	(7.1)	(22.5)
Number of operating accounts newly acquired during the reported period	14.0	14.5	16.9	(0.5)	(2.9)
Number of saving accounts	155.9	160.4	166.6	(4.5)	(10.7)
Number of credit cards, including:	696.7	697.0	718.9	(0.3)	(22.3)
co-branded cards	362.3	383.2	414.2	(20.9)	(51.9)
Number of active credit cards	631.1	632.0	650.2	(0.9)	(19.1)
Number of debit cards, including:	269.1	276.7	296.3	(7.6)	(27.3)
PayPass cards	258.4	264.6	279.1	(6.2)	(20.7)

Net receivables from individual clients – management view

PLN '000	31.03.2016	31.12.2015	31.03.2015	Change (1)/(2)		Change YoY	
	(1)	(2)	(3)	PLN '000	%	PLN '000	%
Unsecured receivables, including:	4,836,635	4,872,448	4,567,570	(35,813)	(0.7%)	269,065	5.9%
Credit cards	2,127,394	2,173,376	1,997,935	(45,982)	(2.1%)	129,459	6.5%
Cash loans	2,652,500	2,635,759	2,505,418	16,741	0.6%	147,082	5.9%
Other unsecured receivables	56,741	63,313	64,217	(6,572)	(10.4%)	(7,476)	(11.6%)
Mortgage loans	1,304,774	1,300,081	1,264,841	4,693	0.4%	39,933	3.2%
Net client receivables	6,141,409	6,172,529	5,832,411	(31,120)	(0.5%)	308,998	5.3%

2.3. Key Business Highlights

Bank accounts

- **Current accounts**

At the end of Q1 2016, the number of personal current accounts stood at 459 thousand (as against 473 thousand at the end of Q1 2015), including 273 thousand in Polish zlotys and 186 thousand in foreign currencies. The decrease in the number of accounts is a result of the Bank's strategy consisting of soliciting medium- and high-income clients. The change in the acquisition model and the ongoing tightening of relationships with existing customers is reflected in the increase in the total balance of current accounts, which amounted to more than PLN 4.57 billion as at end of Q1 2016,24

an increase of 31% compared to the same period of the previous year.

- **Savings accounts**

The number of savings accounts in the first quarter of 2016 was 156 thousand. The total balance of funds accumulated on them amounted to PLN 3.0 billion compared to 167 thousand savings accounts with a total balance of PLN 3.1 billion in the corresponding period of the last year. The decrease in savings account balances is the result of a change in the macroeconomic situation and the low interest rate policy persistently pursued by the MPC, which limits client interest in this type of product.

- **Changes in the offering**

In March 2016, the revised Table of Fees and Charges took effect. For customers with CitiKonto Personal Accounts, charges for debit card withdrawals from ATMs other than those owned by Citi Handlowy, account maintenance and foreign transfer charges were increased. Charges for foreign currency accounts and checking balances at ATMs other than those owned by Citi Handlowy were introduced as well.

The changes introduced are consistent with the Bank's strategy. The new model of fees and commissions encourages clients to tighten their relationship with the Bank so that they satisfy the criteria for Citi Priority or CitiGold clients. It should be stressed that charges for customers from the Gold segment did not change.

Credit cards

As at end Q1 2016, there were 696.7 thousand credit cards. The card portfolio has continued its upward trend since the beginning of 2016 while the number of closed card accounts has declined.

The debt balance on credit cards as at the end of Q1 2016 amounted to PLN 2.1 billion, i.e. was 6% higher than that reported for the same period of the preceding year. As a result, the Bank consolidated its leading position in the credit card market in terms of the value of credit facilities extended in the form of credit cards, holding a market share of 25.2% according to figures as at end March 2016.

In Q1 2016, the number of credit cards issued was 51% higher than in the corresponding period of 2015. High activation levels and transaction volumes were maintained among newly acquired clients. The structure of credit cards sold in Q1 2016 was dominated by the Citi Simplicity card with a share of 79.2%. As regards co-branded cards, the highest share among the cards issued was that of the Citibank World Credit Card with a sales share of 11.2% followed by the Citibank PremierMiles Credit Card with a share of 5.3%.

Cash advances and cash advances associated with credit card accounts

Unsecured cash advances (cash advances and cash advances associated with credit card accounts) stood at PLN 2.7 billion as at end Q1 2016, which was an increase of 6% compared to the corresponding period of the previous year.

In the first three months of 2016 total sales of unsecured cash advances, including cash advances for credit card holders, amounted to PLN 409.4 million.

Mortgage products

In Q1 2016, the Bank continued its strategy of offering attractive products to clients from the CPC, CitiGold and Citi Priority segments. All new mortgage loans were granted to clients from these segments. The balance of the mortgage loan portfolio as at end Q1 2016 amounted to PLN 1.3 billion.

Insurance and investment products

At the end of Q1 2016, the total value of investment products (including insurance products, net of bi-currency investments) purchased by consumers via the Bank was 6.7% lower than at the end of the corresponding period of 2015.

This was mainly due to a decrease in the value of assets held in investment funds and unit-linked funds and the withdrawals related to these products.

As regards structured products, the Bank offered 25 structured note subscriptions in Q1 2016.

As concerns open-end investment funds, in Q1 2016 the Bank introduced four funds into its range of products on offer, including one money market fund managed by a domestic fund management company and three equity funds managed by a foreign investment firm.

2.4. Development of distribution channels

Online banking

The number of active Citibank Online users, i.e. those who logged in to Citibank Online service at least once every 30 days from their computers, amounted to 323,000 at the end of Q1 2016, representing a slight decline compared to the corresponding period of 2015. The share of active Citibank Online users in the total portfolio of the Bank's clients amounted to 48% at the end of Q1 2016, representing an increase by 1 p.p. compared to Q1 2015.

As at the end of Q1 2016, the number of digital users (i.e. those who used Citibank Online or Citi Mobile services on various devices at least once a month) reached 334,400, i.e. 50% of all of the Bank's clients, an increase by over 2 p.p. in relation to the corresponding period of 2015. At the same time, as at end Q1 2016 these clients accounted for 71% of all clients who executed transactions.

The share of transactions executed via Internet or mobile banking channels in total banking transactions at the end of Q1 2016 amounted to 97% and grew by 2 p.p. in relation to the corresponding period of 2015.

In Q1 2016, sales via Internet channels recorded significant growth compared to Q1 2015. The number of credit cards sold via the online channel grew by 81% yoy.

Key improvements of basic functionalities are being steadily introduced based on feedback from clients and online banking users. For instance, navigation on product websites has been optimized and the option of independent card activation has been created for the cards associated with the account and credit cards after logging into the electronic banking system.

Mobile banking

The new Citi Mobile application, launched in changed form in the last quarter of 2015, is constantly gaining new active users. Clients particularly appreciate the ability to preview balances without logging in (Snapshot) and the options to activate a debit card and to associate it with a foreign currency account.

The number of active Citi Mobile users, i.e. those who accessed mobile banking at least once every 30 days, exceeded 73,000 at the end of Q1 2016, an increase of 11% compared to the corresponding period of 2015.

The share of active users of mobile banking in the total portfolio of Citi Handlowy clients stood at 11%, which represents an increase by 2 p.p. over the same period of 2015.

Indirect and Direct Customer Acquisition

- **Direct sales**

The Universal Bankers retail distribution channel continues to rapidly grow its client portfolio through offering three basic products: credit cards, Citi Priority accounts and cash advances. The sales model of this channel is based on the presence of mobile relationship managers close to where their clients are – at shopping malls, gas stations and cinemas, and also during cultural and sports events. Mobile relationship managers are equipped with modern technological solutions enabling them to achieve high sales efficiency.

2.5. Branch network

Smart Banking Ecosystem

As at end Q1 2016, the Smart Banking Ecosystem had 16 branches located in the most prestigious shopping malls in major Polish cities.

Smart outlets have gradually replaced traditional bank branches for consumers. In order to meet client expectations, these outlets are open seven days a week during the opening hours of individual shopping malls. They are equipped with innovative customer service tools such as interactive touch screens presenting the products available and offering benefit calculators, tablets and state-of-the-art computers enabling self-service transactions. The Smart Ecosystem concept sets new trends in the banking market, is in line with the strategy of making digital services more popular among Poles and raises the clients' awareness in the area of banking products. The development of Smart outlets has been the result of a thorough analysis of client requirements and needs – their key assets include simplicity, fast service and 24/7 availability of banking services.

Changes in branch network

As at the end of Q1 2016, the branch network of the Bank comprised 37 outlets. As part of the branch network optimization process and in connection with the implementation of new banking concepts, the Bank closed down the operations of eight traditional branches in Warsaw, Wrocław, Lublin, Kraków, Poznań, Szczecin, Białystok and Toruń. All customers affected by this change were referred to other branches in the same city or alternative access channels guaranteeing secure 24/7 access to the Bank's services and products.

Number of branches and other Points of Sale/touch points

	31.03.2016 (1)	31.12.2015 (2)	31.03.2015 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	37	45	47	(8)	(10)
HUB Gold	8	8	8	-	-
Smart HUB Gold	2	2	2	-	-
Blue	10	18	21	(8)	(11)
Investment Center	2	2	2	-	-
Smart branch	14	14	13	-	1
Corporate branch	1	1	1	-	-

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

9 Rating

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

("Fitch").

On 21 May 2015, Moody's agency updated the Bank's rating by raising the long-term deposit rating from "Baa3" to "A3" and the short-term deposit rating from "Prime-3" to "Prime-2". The rating updates followed modifications to the rating methodology and the confirmation of the Baseline Credit Assessment ("BCA") rating of "baa3" as well as an increase in the Adjusted Baseline Credit Assessment ("Adjusted BCA") rating from "baa3" to "baa2".

As at end Q1 2016, the Bank had the following ratings awarded by Moody's:

Long-term deposit rating	A3
Short-term deposit rating	Prime-2
Baseline Credit Assessments (BCA)	Baa3
Adjusted Baseline Credit Assessments (Adjusted BCA)	Baa2
Long-term Counterparty Risk Assessment	A2
Short-term Counterparty Risk Assessment	Prime-1
Rating outlook for long term deposits	stable

On 23 November 2015, Fitch affirmed the long-term rating at "A-" and raised its short-term rating to "F1" from "F2". Other ratings remained unchanged.

As at end Q1 2016, the Bank had the following ratings awarded by Fitch:

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

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

10 Financial instruments disclosure

Fair value of financial assets and liabilities

The table below presents the fair value of financial assets and liabilities valued at amortised cost in consolidated statement of financial position.

PLN '000	31.03.2016		31.12.2015	
	Balance value	Fair value	Balance value	Fair value
Financial assets				
Amounts due from banks	816,243	816,245	757,103	757,105
Amounts due from customers	17,517,332	17,532,251	18,975,471	19,051,525
Financial liabilities				
Amounts due to banks	10,592,670	10,592,854	6,963,561	6,963,525
Amounts due to customers	30,750,908	30,750,424	31,586,303	31,585,503

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

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

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

In 3 months period of 2016 the Group did not sell any capital investments, of which fair value could not have been credibly valued.

Valuation methods and assumptions used for the purposes of fair value

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

- The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If 27

valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the Bank's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

The Group applies the following methods of measurement of particular types of derivative instruments:

- FX forwards – discounted cash flows model;
 - options – option market-based valuation model;
 - interest rate transactions – discounted cash flow model;
 - futures – current quotations.
- For valuation of securities' transactions current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves, including decrease of credit spread, if needed, are used for valuation.
 - The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis, taking into account fluctuations in market interest rates and changes in margins during the financial period.

Starting from June 1st, 2015 there was introduced a new calculation model for the valuation of derivatives and exchange transaction in the system infrastructure.

Fair value included in consolidated statement of financial position

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

- Level I: financial assets/liabilities valued directly on the basis of prices from an active market where the regular quotations and turnover are available.
The active market includes stock and brokerage quotes and quotes in pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include securities held-for-trading or available-for-sale;
- Level II: financial assets/liabilities valued on the basis of models based on input data from the active market presented in Reuters and Bloomberg systems. Depending on financial instruments, the following specific valuation techniques are used:
 - listed market prices for a given instrument or listed market prices for an alternative instrument,
 - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
 - other techniques, such as yield curves based on alternative prices for a given financial instrument;
- Level III: financial assets/liabilities valued on the basis of valuation techniques using relevant non-market parameters.

The tables below present values of financial instruments in the consolidated statement of financial position in accordance with a fair value classified by above levels.

As at 31 March 2016

PLN '000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	6,640,808	1,499,243	-	8,140,051
derivatives	213	1,465,979	-	1,466,192
debt securities	6,588,289	33,264	-	6,621,553
capital instruments	52,306	-	-	52,306
Debt securities available-for-sale	20,179,057	1,217,858	-	21,396,915
Equity investments available for sale	1,097	-	63,323	64,420
Financial liabilities				
Financial liabilities held-for-trading	28,143	1,740,906	-	1,769,049
short sale of securities	28,143	-	-	28,143
derivatives	-	1,740,906	-	1,740,906
Hedging derivatives	-	107,069	-	107,069

As at 31 December 2015

PLN'000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	4,307,386	2,679,898	-	6,987,284
derivatives	154	2,266,978	-	2,267,132
debt securities	4,279,640	412,920	-	4,692,560
equity instruments	27,592	-	-	27,592
Hedging derivatives	-	1,795	-	1,795
Debt securities available-for-sale	16,842,252	1,509,007	-	18,351,259
Equity investments available for sale	1,006	-	63,323	64,329
Financial liabilities				
Financial liabilities held-for-trading	988,485	2,259,038	-	3,247,523
short sale of securities	988,102	-	-	988,102
derivatives	383	2,259,038	-	2,259,421
Hedging derivatives	-	112,383	-	112,383

In the consolidated statement of financial position, except for assets described above, there are tangible assets available-for-sale, whose fair value decreased by sale cost is smaller than its carrying amount. In consequence, they are positioned in the consolidated statement of financial position at fair value, which as at 31 March 2016 was PLN 1,928 thousands (31 December 2015: PLN 1,928 thousands).

In the 3 month period of 2016 the Group has made no transfers between levels of instruments fair value due to established method of setting fair value.

In the 3 month period of 2016 the Group has not made any changes in classification criteria of financial instruments (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the 3 month period of 2016 the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

In the 3 month period 2016 there was no change in the business or economic situation, that could influence the fair value of Group's financial assets or liabilities, independently whether these assets and liabilities were presented in fair value or amortized cost.

11 Impairment and provisions

PLN '000	As at 1 January 2016	Increases			Decreases			As at 31 March 2016
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale of receivables/oth er assets	Other*	
Impairment of financial assets								
Amounts due from banks	1,750	2,060	1	(2,944)	-	-	-	867
Amounts due from customers	585,406	40,469	8,729	(36,248)	(7,503)	(15,053)	-	575,800
	587,156	42,529	8,730	(39,192)	(7,503)	(15,053)	-	576,667
Provisions for granted financial liabilities and guarantees								
	10,451	5,411	-	(4,989)	-	-	-	10,873
	597,607	47,940	8,730	(44,181)	(7,503)	(15,053)	-	587,540
Other assets impairment								
Capital investment	9,485	-	-	-	-	-	-	9,485
Tangible assets available for sale	1,401	-	-	-	-	-	-	1,401
Other assets	191	633	-	(567)	-	-	-	257
	11,077	633	-	(567)	-	-	-	11,143
Total impairment of assets and provisions for granted								
	608,684	48,573	8,730	(44,748)	(7,503)	(15,053)	-	598,683

PLN '000	As at 1 January 2016	Increases			Decreases			As at 31 March 2016
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale of receivables/oth er assets	Other*	
financial liabilities and guarantees								
Other provisions								
Contentious issues	10,522	99	-	(2,854)	-	-	-	7,767
Restructuring	2,521	-	-	(533)	-	-	(246)	1,742
Total other provisions	13,043	99	-	(3,387)	-	-	(246)	9,509

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

PLN '000	As at 1 January 2015	Increases			Decreases			As at 31 December 2015
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale of receivables/oth er assets	Other*	
Impairment of financial assets								
Amounts due from banks	2,880	3,900	-	(4,972)	-	-	(58)	1,750
Amounts due from customers	798,896	174,520	2,821	(154,922)	(99,868)	(134,936)	(1,105)	585,406
	801,776	178,420	2,821	(159,894)	(99,868)	(134,936)	(1,163)	587,156
Provisions for granted financial liabilities and guarantee								
	13,238	25,956	-	(28,743)	-	-	-	10,451
	815,014	204,376	2,821	(188,637)	(99,868)	(134,936)	(1,163)	597,607
Other assets impairment								
Capital investment	11,440	-	-	-	-	(1,955)	-	9,485
Tangible assets available for sale	1,401	-	-	-	-	-	-	1,401
Other assets	266	689	-	(716)	(2)	-	(46)	191
	13,107	689	-	(716)	(2)	(1,955)	(46)	11,077
Total impairment of assets and provisions for granted financial liabilities and guarantee								
	828,121	205,065	2,821	(189,353)	(99,870)	(136,891)	(1,209)	608,684
Other provisions								
Contentious issues	9,634	16,774	-	(1,207)	-	-	(14,679)	10,522
Restructuring	3,537	1,989	-	(700)	-	-	(2,305)	2,521
Total other provisions	13,171	18,763	-	(1,907)	-	-	(16,984)	13,043

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

In the period 1 January – 31 March 2016 and in 2015 the Group has not made any value actualization write downs due to value loss of tangible assets, intangible assets and write downs reversals involving this subject.

12 Provision and asset due to differed income tax

PLN '000	31.03.2016	31.12.2015
Asset due to differed income tax	430,005	568,132
Provision due to differed income tax	(290,544)	(406,546)
Net asset due to differed income tax	139,461	161,586

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

13 Purchase and sale transactions of tangible assets

In the period 1 January – 31 March 2016 the value of purchased by the Group components of “fixed assets” equaled PLN 6,816 thousand (in 2015: PLN 34,502 thousand); the value of sold components equals PLN 916 thousand (in 2015: PLN 6,248 thousand).

As at 31 March 2016 the Group has no significant contract liabilities due to future purchase of tangible assets

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

Between 1 January and 31 March 2016 in the Group has been no occurrence of default or breach due to received credit agreement.

15 Seasonality or periodicity of business activity

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

16 Issue, redemption and repayment of debt and equity securities

In the 3 month period of 2016 no issue, pay back or repurchase of debt or equity securities had place.

17 Paid or declared dividends

Dividends declared

At the meeting on 11 March 2016, Supervisory Board of the Bank Handlowy w Warszawie S.A. considered and approved the proposal of the Management of the Bank concerning to profit for 2015 distribution, including the proposal of destination to pay out PLN 611,486,928.00, i.e. 98,6% of standalone net profit from 2015, as a dividend, which will be paid in the form of cash, resulting from, accepted by the Management Board on 3 March 2016 and approved by the Supervisory Board on 11 March 2016, the annual standalone financial statements of the Bank for the financial year ending 31 December 2015. Above mentioned proposal determined the payout for single share at PLN 4.68. The number of shares covered by the dividend is 130,659,600.

Simultaneously, the Supervisory Board examined and approved the proposal of the Management Board on the date the dividend on 4 July 2016 and the date of pay out on 21 July 2016.

This proposal with the opinion of the Supervisory Board will be submitted to the General Meeting of Shareholders for approval.

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

As at 31 March 2016 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group.

19 Changes in granted financial and guarantee commitments

The detailed specification of granted financial and guarantee commitments as at 31 March 2016 and changes in comparison with the end of 2015 are as follows:

PLN '000	State as at		Change	
	31.03.2016	31.12.2015	PLN '000	%
Contingent liabilities granted				
financial	16,637,064	15,916,191	720,873	4.5%
Import letters of credit issued	172,212	160,065	12,147	7.6%
Credit lines granted	15,143,852	14,618,126	525,726	3.6%
Subscription of securities granted to other issuers	1,321,000	1,138,000	183,000	16.1%
guarantees	2,094,548	2,131,343	(36,795)	(1.7%)
Guarantees granted	2,064,023	2,101,477	(37,454)	(1.8%)
Export letters of credit confirmed	747	335	412	123.0%
Other	29,778	29,531	247	0.8%
	18,731,612	18,047,534	684,078	3.8%
Contingent liabilities received				
financial (deposits to receive)	3,118,806	-	3,118,806	-

PLN '000	State as at		Change	
	31.03.2016	31.12.2015	PLN '000	%
guarantees (guarantees received)	16,037,296	15,470,264	567,032	3.7%
	19,156,102	15,470,264	3,685,838	23.8%
Contingent transactions due to FX, securities and derivatives (granted/received liabilities)				
Current*	8,142,181	1,513,219	6,628,962	438.1%
Forward **	125,016,304	176,512,715	(51,496,411)	(29.2%)
	133,158,485	178,025,934	(44,867,449)	(25.2%)

*Foreign exchange and securities transactions with current value date

** Derivatives: FX, interest rate transactions and options

20 Changes in Group's structure

In the first quarter of 2016 the structure of the Group has not changed as a result of merger, acquisition or disposal of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

21 Achievement of 2016 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2016.

22 Information about shareholders

As at the day of publishing the Interim Statement for the first quarter 2016 the list of shareholders who held directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital is as follows:

	Value of shares (PLN '000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other Shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	130,659,600	100.0	130,659,600	100.0

In the period between publishing the interim financial statements for the third quarter 2015, annual consolidated financial report for the year 2015 and publishing this report for the first quarter 2016 the structure of major shareholdings has not undergone any changes.

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

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

Name and surname	Function	Number of shares on day of publishing the Interim Financial Statement for the first quarter 2016	Number of shares on day of publishing the Annual Consolidated Financial Report for the year 2015	Number of shares on day of publishing the Interim Financial Statement for the third quarter 2015
Andrzej Olechowski	Chairman of Supervisory Board	2,200	2,200	2,200
Total		2,200	2,200	2,200

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

24 Information on pending court proceedings

In the first quarter 2016 there was no single proceeding regarding receivables and liabilities of the Bank or its subsidiary pending in court, public administration authority or an arbitration authority, the value of which would equal at least 10% of Bank's equity.

The total value of all legal proceedings regarding receivables, with the participation of the Bank and its subsidiaries, in the first quarter 2016 did not exceed 10% of the Bank's equity.

The total value of all legal proceedings regarding liabilities, with the participation of the Bank and its subsidiaries, in the 32

first quarter 2016 did not exceed 10% of the Bank's equity.

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

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

As at 31 March 2016, the Bank was among others a party to 17 court proceedings associated directly with derivative transactions that have not been legally terminated: in 10 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. In 2015, in court proceedings associated with derivative transactions, where the Bank was defendant or plaintiff 8 have been legally terminated were issued 4 in favor of the Bank and in 4 cases Bank concluded a compromise.

The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressee of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was a subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set up at the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. On April 28, 2016 there has been sent the extraordinary appeal to the Supreme Court.

In the first quarter 2016 the Group did not make any significant settlement due to court ended with the final judgment.

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

In the first quarter of 2016, the Bank and its subsidiaries entered into transactions with related entities. All transactions with related entities were dealt on market terms.

26 Information about guarantee agreements

At the end of the first quarter of 2016, the total value of sureties and guarantees given by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's shareholders' equity.

27 Other significant information

In April 2016, the Bank was informed by Visa Europe about changes agreed by and between Visa Europe and Visa Inc. to the terms and conditions of the planned acquisition of Visa Europe by Visa Inc. The revised terms and conditions assume an additional guaranteed cash consideration for acquisition in the amount of EUR 1.87 billion (including interest), out of which EUR 750 million is payable upfront and EUR 1.12 billion (including interest) is payable after three years. The additional guaranteed cash consideration is to replace the formerly envisaged earn-out consideration. The changes to the terms and conditions will be covered in the final agreement and will be subject to regulatory approvals. According to the information provided, the transaction may be settled later than originally planned, i.e. after Q2 2016.

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

The result of the British referendum on continued membership in the European Union, but also the results of parliamentary elections in EU countries where parties from outside the political mainstream have gained considerable popularity, may affect the future shape of the Union and its budget. United Kingdom's exit from the European Union could trigger a process resulting in a significant decrease in the flow of EU funds to Poland, which would adversely affect economic growth prospects and cause the deterioration of the quality of financing sources in Poland's balance of payments. At the same time, the increase in foreign exchange reserves would be halted, and their level may prove important if the issue of foreign-currency loans is ultimately resolved.

The conversion of foreign currency loans into zloty ones on terms that would significantly burden the banking sector 33

could threaten the stability of the financial sector, which would negatively affect the country's fiscal situation, lending and economic growth prospects. Moreover, this would most likely lead to Poland being downgraded by rating agencies, exerting additional upward pressure on debt servicing costs and probably triggering a sale of domestic assets by foreign investors.

There is still uncertainty as to the scale of the economic slowdown in China and the sustainability of U.S. growth. If the actual activity of the Chinese economy turned out to be much lower than projected, and the slowdown recently observed in the U.S. proved more serious, it could have a negative impact on economic performance, including that of eurozone, and Germany in particular, and these are Poland's most important trade partners. Therefore economic growth in Poland would be lower, which could lead to further cuts in interest rates and the weakening of the zloty.

A risk factor for emerging market assets, including Poland, is the pace of monetary policy tightening in the U.S. If the U.S. central bank decides to raise interest rates faster than expected by the market, that could lead to increased outflows of capital from emerging markets, including from Poland. As a result, the zloty and Polish government bonds could depreciate.

The problem of Greek debt remains in the background. The risk of Greece's exit from the eurozone due to its high debt burden may increase again and attract the markets' attention within the next one to three years. As a result, the financial markets could face considerable volatility with the Polish currency depreciating and the Swiss franc appreciating. In the event of considerable changes in the currency market, this could pose a threat to some Polish households and as a result affect the condition of part of the Polish banking sector. Greece's possible exit from the eurozone could also have an adverse effect on economic activity in Western Europe, which would affect the economic situation in Poland.

Similar to previous quarters, geopolitical tensions in Eastern Europe remain a potential threat to the Polish economy, since they could result in a collapse of demand for some of Poland's export products.

Interim condensed standalone financial statements of the Bank for the first quarter 2016

Condensed income statement

<i>PLN '000</i>	First quarter accruals	First quarter accruals
	period from 01.01.16 to 31.03.16	period from 01.01.15 to 31.03.15
Interest and similar income	306,624	308,478
Interest expense and similar charges	(60,434)	(53,717)
Net interest income	246,190	254,761
Fee and commission income	151,436	159,803
Fee and commission expense	(15,506)	(17,848)
Net fee and commission income	135,930	141,955
Net income on trading financial instruments and revaluation	37,868	84,677
Net gain on debt investment securities available-for-sale	6,624	98,458
Net gain/(loss) on hedge accounting	4,157	-
Other operating income	12,954	14,796
Other operating expenses	(7,480)	(14,206)
Net other operating income	5,474	590
General administrative expenses	(288,123)	(290,058)
Depreciation and amortization	(18,280)	(16,861)
Profit on sale of other assets	9	4
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	5,206	(3,622)
Tax on certain financial institutions	(13,137)	-
Profit before tax	121,918	269,904
Income tax expense	(23,766)	(56,725)
Net profit	98,152	213,179
Weighted average number of ordinary shares (in pcs)	130,659,600	130,659,600
Earnings per share (in PLN)	0.75	1.63
Diluted net earnings per share (in PLN)	0.75	1.63

Condensed statement of comprehensive income

<i>PLN '000</i>	First quarter accruals	First quarter accruals
	period from 01.01.16 to 31.03.16	period from 01.01.15 to 31.03.15
Net profit	98,152	213,179
Other comprehensive income, that might be subsequently reclassified to profit or loss		
Net value of available-for-sale financial assets	94,595	(23,118)
Total comprehensive income	192,747	190,061

Condensed statement of financial position

	State as at	31.03.2016	31.12.2015
<i>PLN '000</i>			
ASSETS			
Cash and balances with the Central Bank		1,072,272	2,170,237
Amounts due from banks		816,001	756,859
Financial assets held-for-trading		8,087,745	6,959,692
Hedging derivatives		-	1,795
Debt securities available-for-sale		21,396,915	18,351,259
Equity investments		274,597	299,946
Amounts due from customers		17,397,173	18,847,968
Tangible fixed assets		339,662	342,941
Intangible assets		1,364,759	1,370,392
Current income tax receivables		44,229	14,351
Deferred income tax asset		140,247	162,059
Other assets		436,337	162,873
Non-current assets held-for-sale		1,928	1,928
Total assets		51,371,865	49,442,300
LIABILITIES			
Amounts due to banks		10,569,046	6,922,125
Financial liabilities held-for-trading		1,769,049	3,247,523
Hedging derivatives		107,069	112,383
Amounts due to customers		30,946,594	31,764,349
Provisions		19,702	22,814
Other liabilities		985,192	590,640
Total liabilities		44,396,652	42,659,834
EQUITY			
Ordinary shares		522,638	522,638
Share premium		2,944,585	2,944,585
Revaluation reserve		(69,214)	(163,809)
Other reserves		2,858,825	2,858,825
Retained earnings		718,379	620,227
Total equity		6,975,213	6,782,466
Total liabilities and equity		51,371,865	49,442,300

Condensed statement of changes in equity

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2016	522,638	2,944,585	(163,809)	2,858,825	620,227	6,782,466
Total comprehensive income, including:	-	-	94,595	-	98,152	192,747
Net profit	-	-	-	-	98,152	98,152
Net valuation of available-for-sale financial assets	-	-	94,595	-	-	94,595
Balance as at 31 March 2016	522,638	2,944,585	(69,214)	2,858,825	718,379	6,975,213

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2015	522,638	2,944,585	52,622	2,857,317	971,423	7,348,585
Total comprehensive income, including:	-	-	(23,118)	-	213,179	190,061
Net profit	-	-	-	-	213,179	213,179
Net valuation of available-for-sale financial assets	-	-	(23,118)	-	-	(23,118)
Balance as at 31 March 2015	522,638	2,944,585	29,504	2,857,317	1,184,602	7,538,646

<i>PLN '000</i>	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2015	522,638	2,944,585	52,622	2,857,317	971,423	7,348,585
Total comprehensive income, including:	-	-	(216,431)	886	620,227	404,682
Net profit	-	-	-	-	620,227	620,227
Net valuation of available-for-sale financial assets	-	-	(216,431)	-	-	(216,431)
Net actuarial profits on specific services program valuation	-	-	-	886	-	886
Dividends paid	-	-	-	-	(970,801)	(970,801)
Transfer to capital	-	-	-	622	(622)	-
Balance as at 31 December 2015	522,638	2,944,585	(163,809)	2,858,825	620,227	6,782,466

Condensed summary statement of cash flows

<i>PLN '000</i>	First quarter accruals period from 01.01.16 to 31.03.16	First quarter accruals period from 01.01.15 to 31.03.15
Cash at the beginning of the reporting period	2,354,108	1,732,844
Cash flows from operating activities	(1,195,808)	(763,491)
Cash flows from investing activities	(10,514)	(23,012)
Cash flows from financing activities	(30,220)	(33,874)
Cash at the end of the reporting period	1,117,566	912,467
Increase/(decrease) in net cash	(1,236,542)	(820,377)

Condensed additional information

1. Declaration of conformity

These interim condensed standalone financial statements have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting*, adopted by European Union and with other applicable regulations.

These interim condensed standalone financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the standalone financial statements of the Bank for the financial year ended 31 December 2015 and interim condensed consolidated financial statement of the Group for the first quarter 2016.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2014, item 133) the Bank is obliged to publish its financial results for the 3 month period ended 31 March 2016 which is deemed to be the current interim financial reporting period.

2. Significant accounting policies

Interim condensed standalone financial statements of the Bank for the first quarter of 2016 have been prepared in accordance with the Decree by virtue of which the issuer, being a parent entity, is not obliged to provide interim separate financial statements, on condition that it includes in the interim consolidated financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and condensed supplementary notes, comprising of information and data significant for the assessment of the issuer's financial standing and its profit or loss, but not presented in the interim consolidated financial statement. In addition, it's required to prepare the interim condensed financial statements in accordance with accounting principles adopted in the preparation process of the annual financial statements.

Principles adopted in the preparation process of these interim condensed standalone financial statement are consistent with the principles, described in the annual standalone financial statements of the Bank for the financial year ended 31 December 2015.

Other information and explanations concerning these interim condensed consolidated financial statements for the first quarter 2016 contain also all information and explanatory data essential for these interim condensed standalone financial statements.

The summary of Bank's financial results for the first quarter of 2016 is presented below.

Bank's financial results

For the first quarter of 2016 the Bank has generated profit before tax of PLN 122 million, meaning decrease by PLN 148 million (or 54.8%) in comparison to analogous period of previous year. Net profit for the first quarter 2016 was PLN 98 million, meaning decrease by PLN 115 million (or 53.9%) in comparison to first quarter 2015.

The significant on the Bank net profit in the first quarter 2016 had decrease of financial instruments result (trade financial instruments and revaluation, debt securities) by total of PLN 139 million (or 75.7%), decrease of interest and fees result by PLN 15 million (or 3.7%), costs of tax on certain financial institutions in the amount of PLN 13 million, lower (net) write downs on financial assets and provisions for granted financial liabilities and guarantees by PLN 9 million and increase of result on other operating income and expenses as well as result on sale of other assets by PLN 5 million, increase of on hedge accounting result by PLN million and lower income tax burden by PLN 33 million (or 58.1%).

The interim condensed consolidated financial statements for the first quarter of 2016 will be available on the website of Bank Handlowy w Warszawie S.A. at www.citihandlowy.pl

Signature of the Vice-Director of
Financial Reporting and Control Department

Signature of the Vice-President of
Management Board

Date and signature

Date and signature

12.05.2016

12.05.2016

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