



INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
FOR THE FIRST QUARTER 2017

APRIL 2017

Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.
for the first quarter of 2017

TRANSLATION

SELECTED FINANCIAL DATA	First quarter	PLN '000	First quarter	EUR '000***
	accruals	First quarter	accruals	First quarter
	period from 01.01.17 to 31.03.17	period from 01.01.16 to 31.03.16	period from 01.01.17 to 31.03.17	period from 01.01.16 to 31.03.16
Data related to the interim condensed consolidated financial statements				
Interest income	312,330	307,211	72,819	70,528
Fee and commission income	155,342	161,516	36,218	37,080
Profit before tax	75,119	128,445	17,514	29,488
Net profit	42,656	104,371	9,945	23,961
Comprehensive income	74,410	199,538	17,349	45,809
Increase/(decrease) in net cash	1,616,084	(1,236,544)	376,789	(283,878)
Total assets*	44,762,276	45,209,916	10,607,677	10,219,240
Amounts due to banks*	2,967,581	2,310,742	703,252	522,320
Amounts due to customers*	31,725,105	33,936,511	7,518,154	7,671,002
Equity	6,864,860	7,050,194	1,626,821	1,651,718
Ordinary shares	522,638	522,638	123,854	122,444
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	52.67	53.96	12.48	12.64
Total capital adequacy ratio (%)*	17.3	17.4	17.3	17.4
Earnings per share (PLN / EUR)	0.33	0.80	0.08	0.18
Diluted earnings per share (PLN / EUR)	0.33	0.80	0.08	0.18
Data related to the interim condensed standalone financial statements				
Interest income	312,017	306,624	72,746	70,393
Fee and commission income	141,934	151,436	33,092	34,766
Profit before tax	71,381	121,918	16,642	27,989
Net profit	39,630	98,152	9,240	22,533
Comprehensive income	71,612	192,747	16,696	44,250
Increase/(decrease) in net cash	1,616,083	(1,236,542)	376,788	(283,877)
Total assets*	44,421,603	45,091,648	10,526,945	10,192,506
Amounts due to banks*	2,962,194	2,303,627	701,975	520,711
Amounts due to customers*	31,764,317	34,031,947	7,527,446	7,692,574
Equity	6,795,538	6,975,213	1,610,393	1,634,152
Ordinary shares	522,638	522,638	123,854	122,444
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	52.14	53.38	12.36	12.51
Total capital adequacy ratio (%)*	17.0	17.2	17.0	17.2
Earnings per share (PLN/EUR)	0.30	0.75	0.07	0.17
Diluted earnings per share (PLN / EUR)	0.30	0.75	0.07	0.17
Declared or paid dividends per share (PLN/EUR)**	4.53	4.68	1.07	1.10

*Comparative balance data according as at 31 December 2016.

** The presented ratios are related to declared dividend from the distribution of 2016 profit and dividend paid in 2016 from the distribution of 2015 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 2017 - 4.2198 (as at 31 December 2016: PLN 4.4240; as at 31 March 2016 - PLN 4.2684); 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 2017 - PLN 4.2891 (in the first quarter of 2016: PLN 4.3559).

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Condensed consolidated income statement

<i>PLN '000</i>	First quarter accruals period from 01.01.17 to 31.03.17	First quarter accruals period from 01.01.16 to 31.03.16
Interest and similar income	312,330	307,211
Interest expense and similar charges	(58,054)	(59,825)
Net interest income	254,276	247,386
Fee and commission income	155,342	161,516
Fee and commission expense	(21,049)	(18,876)
Net fee and commission income	134,293	142,640
Dividend income	-	1
Net income on trading financial instruments and revaluation	72,635	38,230
Net gain on debt investment securities available-for-sale	4,986	6,624
Net gain on equity investment instruments available-for-sale	292	-
Net gain/(loss) on hedge accounting	4,581	4,157
Other operating income	7,535	17,695
Other operating expenses	(11,506)	(7,621)
Net other operating income	(3,971)	10,074
General administrative expenses	(326,324)	(294,508)
Depreciation and amortization	(16,646)	(18,549)
Profit on sale of other assets	2	9
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(29,414)	5,519
Operating income	94,710	141,583
Share in net profits of entities valued at equity method	2	(1)
Tax on certain financial institutions	(19,593)	(13,137)
Profit before tax	75,119	128,445
Income tax expense	(32,463)	(24,074)
Net profit	42,656	104,371
Including:	42,656	104,371
Net profit attributable to Bank's shareholders		
Weighted average number of ordinary shares (in pcs)	130,659,600	130,659,600
Earnings per share (in PLN)	0.33	0.80
Diluted net earnings per share (in PLN)	0.33	0.80

Condensed consolidated statement of comprehensive income

	<u>First quarter accruals</u>	<u>First quarter accruals</u>
	<u>period</u>	<u>period</u>
	<u>from 01.01.17</u>	<u>from 01.01.16</u>
	<u>to 31.03.17</u>	<u>to 31.03.16</u>
<i>PLN '000</i>		
Net profit	42,656	104,371
Other comprehensive income, that might be subsequently reclassified to profit or loss:		
Net value of available-for-sale financial assets	32,007	94,614
Currency translation differences	(253)	553
Other comprehensive income net of tax	31,754	95,167
Total comprehensive income	74,410	199,538
Including:		
Comprehensive income attributable to Bank's shareholders	74,410	199,538

Condensed consolidated statement of financial position

	State as at	31.03.2017	31.12.2016
<i>PLN '000</i>			
ASSETS			
Cash and balances with the Central Bank		2,219,871	665,755
Amounts due from banks		798,240	587,087
Financial assets held-for-trading		2,030,567	3,781,405
Hedging derivatives		8,808	12,244
Debt securities available-for-sale		17,319,164	19,072,371
Equity investments valued at equity method		10,473	10,471
Equity investments available for sale		24,302	22,842
Amounts due from customers		19,217,584	18,860,053
Tangible fixed assets		338,885	342,971
Intangible assets		1,373,038	1,350,861
Current income tax receivables		26,256	13,901
Deferred income tax asset		187,947	198,383
Other assets		1,205,213	289,644
Non-current assets held-for-sale		1,928	1,928
Total assets		44,762,276	45,209,916
LIABILITIES			
Amounts due to banks		2,967,581	2,310,742
Financial liabilities held-for-trading		1,464,132	1,305,614
Hedging derivatives		52,519	39,897
Amounts due to customers		31,725,105	33,936,511
Provisions		22,451	22,856
Other liabilities		1,665,628	803,846
Total liabilities		37,897,416	38,419,466
EQUITY			
Ordinary shares		522,638	522,638
Share premium		3,003,082	3,003,082
Revaluation reserve		(182,836)	(214,843)
Other reserves		2,884,791	2,885,044
Retained earnings		637,185	594,529
Total equity		6,864,860	6,790,450
Total liabilities and equity		44,762,276	45,209,916

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 2017	522,638	3,003,082	(214,843)	2,885,044	594,529	-	6,790,450
Total comprehensive income, including:	-	-	32,007	(253)	42,656	-	74,410
Net profit	-	-	-	-	42,656	-	42,656
Currency translation differences from the foreign operations' conversion	-	-	-	(253)	-	-	(253)
Net valuation of available-for-sale financial assets	-	-	32,007	-	-	-	32,007
Balance as at 31 March 2017	522,638	3,003,082	(182,836)	2,884,791	637,185	-	6,864,860

<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 2016	522,638	3,001,525	(163,613)	2,869,509	620,597	-	6,850,656
Total comprehensive income, including:	-	-	(51,230)	1,031	601,580	-	551,381
Net profit	-	-	-	-	601,580	-	601,580
Currency translation differences from the foreign operations' conversion	-	-	-	753	-	-	753
Net valuation of available-for-sale financial assets	-	-	(51,230)	-	-	-	(51,230)
Net actuarial profits on specific services program valuation	-	-	-	278	-	-	278
Dividends paid	-	-	-	-	(611,587)	-	(611,587)
Transfer to capital	-	1,557	-	14,504	(16,061)	-	-
Balance as at 31 December 2016	522,638	3,003,082	(214,843)	2,885,044	594,529	-	6,790,450

Condensed consolidated statement of cash flows

	First quarter accruals	First quarter accruals
	period from 01.01.17 to 31.03.17	period from 01.01.16 to 31.03.16
<i>PLN '000</i>		
Cash at the beginning of the reporting period	672,882	2,354,352
Cash flows from operating activities	1,703,810	(1,177,493)
Cash flows from investing activities	(37,115)	(9,843)
Cash flows from financing activities	(50,611)	(49,208)
Cash at the end of the reporting period	2,288,966	1,117,808
Increase/(decrease) in net cash	1,616,084	(1,236,544)

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 brokerage activity through its subsidiary.

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	
		31.03.2017	31.12.2016
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 2017 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 2016.

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, as amended) the Bank is obliged to publish its financial results for the 3 month period ended 31 March 2017 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 2017 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 2016.

The interim condensed consolidated financial statement of the Group have been prepared in accordance with the same accounting policies used in the annual consolidated financial statements for the financial year ended 31 December 2016.

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 2016, 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 2017, concern:

- value loss of financial assets,
- valuation to the fair value of derivatives,
- employee benefits.

The Group is in the process of implementing IFRS 9. Significant information on this subject was disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2016 and since that time have not changed.

The interim condensed consolidated financial statements of the Group have been prepared for the period from 1 January 2017 to 31 March 2017 and for the consolidated statement of financial position as at 31 March 2017. Comparative financial data are presented for the period from 1 January 2016 to 31 March 2016 and for the consolidated statement of financial position as at 31 December 2016.

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

Economic growth in the first quarter 2017 was probably much higher than the 2.7% recorded in the fourth quarter 2016. Growth continues to be driven by private consumption as evidenced by the rapid growth of retail sales – by 7.6% y/y in the first quarter as against 6.5% in the fourth quarter. Growing consumer spending is the effect of further improvement in the labor market and the households' higher disposable incomes as a result of disbursements from the 500+ child allowance program. The registered unemployment rate has fallen steadily to reach historically low levels (8.2% at the end of March 2017). However, the improvement in industry and construction was the largest contributor to the uptick in economic activity in the first quarter 2017.

The seasonally adjusted manufacturing PMI increased from 52.1 in the fourth quarter 2016 to 54.2 in the first quarter 2017. Industrial production accelerated to 7.2% y/y from 1.5% y/y in the previous quarter. Moreover, construction output rose in the first quarter 2017 by an average of 4.6% as against a decrease of 13.6% in the fourth quarter 2016, which signals a recovery in infrastructural investments co-financed from EU funds.

Prices of consumer goods and services increased by 2% in the first quarter 2017 compared to 0.2% in the fourth quarter 2016 and -0.6% on average in 2016 as a whole. Inflation picked up considerably in the first months of the year, primarily due to the rapid rise in fuel prices compared to the last year. Higher inflation was also sparked by rises in food and energy prices. Gradually, net inflation also increased (to 0.4% in the first quarter from -0.1% in the fourth quarter last year), reflecting a good economic climate and sustained high domestic demand.

Despite the significant increase in inflation and the fact that it exceeded the NBP benchmark rate, the Monetary Policy Council (MPC) has not decided to change monetary policy parameters yet. In its recent statements, the Monetary Policy Council has also signaled that in spite of robust economic performance and the fact that real interest rates were expected to remain in negative territory, it saw no need for monetary policy adjustments in 2017.

After a pronounced depreciation of the Polish zloty in the fourth quarter 2016 in response to the outcome of the U.S. presidential election and fears of an outflow of capital from the emerging markets, in the first quarter 2017 the domestic currency strengthened against both the euro and the U.S. dollar. The zloty was supported by better-than-expected data

on economic activity. The EUR/PLN exchange rate dropped to 4.23 from 4.40 at the end of 2016. The USD/PLN exchange rate fell to 3.97 from 4.18 respectively.

As regards the debt market, yields declined in the first quarter 2017. While the upward trend continued in the beginning of the year, from mid-February bond yields began to decline gradually, supported by rising bond prices in core markets, while expectations concerning the scale of monetary policy tightening in Poland and in the U.S. receded. In the first quarter 2017, yields on 2-year Treasury bonds fell by 3 bps to 2.0%. On the other hand, the yield on 10-year bonds dropped to 3.51% at the end of March from 3.63% at the end of December 2016. At the end of the first quarter, WIBOR 3M stayed at 1.73%, unchanged from the end of 2016.

2. Capital market situation

In the first quarter 2017, the positive sentiment that was sparked in December 2016, i.e. just after the U.S. presidential election, continued. The shift in attitude towards the Polish stock market, mainly by foreign investors, contributed to the bull market on the Warsaw Stock Exchange. An additional factor that supported those trends were inflows into domestic equity funds, although they remained relatively small.

In the first three months of 2017, all main WSE indices (except for the WIG-div index of dividend stocks) recorded double-digit increases. The WIG broad market index went up by 11.9% q/q, and similar growth was recorded by the companies with the highest capitalization (the WIG20 blue chip index gained 11.7% q/q). The mWIG40 mid-cap index increased by 12.5% q/q, while the best returns were achieved by small caps whose sWIG80 index rose by as much as 14.9% q/q.

Among sector subindices, the construction sector index stood out, gaining 23.1% q/q in the first quarter. Considerable increases were also recorded by mining and chemical companies whose sub-indices advanced by 18.2% q/q and 17% q/q, respectively. The telecommunications index was the only one to record a negative return of -6.4% q/q.

In the first quarter 2017, activity on the domestic initial public offering market was low. Just as in the corresponding period of 2016, just two new companies were listed on the main WSE market (both moved from the New Connect alternative market); during the same period, shares in a single company were delisted from the main market. The value of initial public offerings amounted to PLN 99 million (in the same period of the previous year it was PLN 73 million, and in the fourth quarter 2016 – PLN 629 million).

As at the end of March, shares in 486 companies (including 53 foreign ones) were listed on the main WSE market and their overall market capitalization exceeded PLN 1,260 billion (an increase of 13% compared to the end of 2016).

Equity market indices as of 31 March 2017

Index	31 march 2017	31 December 2016	Change (%) QoQ	31 March 2016	Change (%) YoY
WIG	57,911.31	51,754.03	11.9%	49,017.35	18.1%
WIG-PL	58,931.40	52,583.91	12.1%	50,037.40	17.8%
WIG-div	1,128.23	1,039.29	8.6%	1,035.12	9.0%
WIG20	2,175.96	1,947.92	11.7%	1,997.69	8.9%
WIG20TR	3,682.21	3,296.32	11.7%	3,281.89	12.2%
WIG30	2,516.38	2,243.30	12.2%	2,218.53	13.4%
mWIG40	4,743.66	4,215.54	12.5%	3,612.30	31.3%
sWIG80	16,382.22	14,259.47	14.9%	13,605.31	20.4%
Sector sub-indices					
WIG-Banks	6,991.74	6,263.33	11.6%	6,498.60	7.6%
WIG-Construction	3,518.62	2,857.41	23.1%	2,896.70	21.5%
WIG-Chemicals	16,091.27	13,755.90	17.0%	15,523.48	3.7%
WIG- Energy	2,876.20	2,551.21	12.7%	3,114.33	(7.6%)
WIG- Mining	4,157.63	3,516.44	18.2%	2,349.19	77.0%
WIG-IT	2,359.40	2,155.40	9.5%	1,772.31	33.1%
WIG-Media	5,167.54	4,561.93	13.3%	4,437.18	16.5%
WIG- Developers	1,933.40	1,829.06	5.7%	1,587.32	21.8%
WIG- Oil & Gas	6,561.69	5,668.84	15.8%	4,797.12	36.8%
WIG- Food	4,577.12	4,154.32	10.2%	3,541.38	29.2%
WIG-Telecom	683.57	730.02	(6.4%)	824.73	(17.1%)

Source: WSE, DMBH;

*The name of the stock indices has changed from WIG-Surowce to WIG-Górnictwo and WIG-Deweloperzy to WIG-Nieruchomości.

Equity and bond trading value and derivatives trading volumes on WSE in the first quarter of 2017

	Q1 2017	Q4 2016	Change (%) QoQ	Q1 2016	Change (%) YoY
Shares (PLN million)*	137,102	116,235	18.0%	91,809	49.3%
Bonds (PLN million)	758	933	(18.8%)	472	60.6%
Futures (in thousand contracts)	4,299	4,143	3.8%	3,701	16.2%
Options (in thousand contracts)	185	475	(61.1%)	181	2.2%

*excluding calls

Source: WSE, DMBH

The upbeat mood in the domestic stock market was also confirmed by increased investor activity. In the first quarter 2017, equity turnover increased by 18.0% q/q and by 49.3% compared to the same period of the previous year.

In the bond segment, turnover amounted to PLN 758 million and was lower by 18.8% than in the fourth quarter 2016. On the other hand, compared to the first quarter 2016, the investors' activity in that market segment was considerably higher (+60.6% y/y).

In the first quarter 2017, the volume of forward and future contracts traded amounted to almost 4.3 million units, which translated into quarterly and annual growth of 3.8% and 16.2%, respectively.

From January to March 2017, the volume of options traded reached almost 185,000 units. Compared to the fourth quarter 2016, investor activity in this segment significantly declined (-61.1%), albeit remained slightly higher (2.2%) compared to the volumes traded in the first three months of the previous year.

5 Banking sector

The figures published by the National Bank of Poland indicate an increase in the volume of loans to corporates by 5.2% y/y at the end of March 2017. Their balance amounted to over PLN 314 billion. The portfolio growth rate has gradually decreased since April 2016, when it fluctuated in the 8–11 percent range. As regards the term structure, the growth in the volume of loans increased together with their maturities. The fastest growth was observed for long-term loans (over 5 years) and those contracted for periods of 1 to 5 years (+8.0% and +6.2%, respectively), while short-term loans (up to one year) remained almost unchanged (+0.1% y/y). By type structure, the greatest demand was reported for investment loans classified as other loans (+11.9% y/y) and for investment loans (+9.9% y/y). Current loans grew with significantly lower dynamics (+2.8% y/y), while real estate loans volume decreased by -2.2% y/y. According to the figures available at the end of February 2017, the quality of the corporate loan portfolio as measured by the ratio of non-performing loans (NPL) improved further by 1 p.p. y/y, to 8.7%. That was attributable to improvement in the quality of loans both to large enterprises (a decline by 0.9 p.p. to 6.5%) and to small and medium-sized enterprises (a decline by 0.9 p.p. to 10.4%). Although the improvement in the quality of the corporate loan portfolio is gradually becoming slower, it still reflects a favorable trend in the market. The improvement in the NPL ratio also testifies to the companies' robust financial standing, which is additionally improving steadily.

At the end of first quarter 2017, the balance of household loans increased to slightly above PLN 648 billion (+4.5% y/y, PLN 27.7 billion), primarily owing to consumer loans (+7.2% y/y, PLN 10.7 billion) whose volume reached another record level of PLN 159.0 billion. In the case of real estate loans, the growth rate of loans granted has decelerated considerably (to +3.5% y/y). The volume of foreign currency residential real estate loans fell by -5.9% y/y (as a result of the appreciation of the Polish zloty against the Swiss franc and the euro), while the volume of loans denominated in the domestic currency has grown steadily (+10.3% y/y). The impact of currency fluctuations on mortgage loan volumes 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 42% at the end of March 2016 to 38% at the end of March 2017). The quality of the portfolio of loans to households improved only slightly. The NPL ratio in that segment dropped by 0.1 p.p. y/y in February 2017 down to the level of 6.1%, owing exclusively to consumer loans for which that value dropped by 0.4 p.p. y/y, to the level of 12.0% while the NPL ratio for mortgage loans remained unchanged at 2.9%.

Corporate deposits increased by 7.0% on an annual basis, with a balance of over PLN 247 billion at the end of March 2017. Owing to persistently low interest rates, growth was recorded primarily in the current deposit area (+10.8% y/y, PLN 15 billion). The volume of funds in time deposits increased much more slowly: by 1.1% y/y.

In spite of the unfavorable impact of record low interest rates on interest on bank deposits, household deposits continued to grow at a very high rate (+8.2% y/y), reaching almost PLN 723 billion. A difference in the growth rates of current deposits (+17.5% y/y) and time deposits (-2.0% y/y) was significant, however.

According to PFSA figures, the net result of the banking sector after the first two months dropped by 16.8% compared with the same period of the previous year and amounted to PLN 1.7 billion. The deterioration in the net result was caused by a 12.1% increase y/y in operating expenses related, *inter alia*, to the charge to the Resolution Fund managed by the BGF and to the bank tax (which has been in force since February 2016). The higher costs were partly offset by higher bank income, which was driven by an increase in net interest income (+9.9% y/y) and an increase in net fee and commission income as well (+4.0% y/y). As a result of the decrease in other income by -11.0% y/y, net income from banking activity improved by 5.9% y/y.

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 2017 total assets stood at PLN 44.8 billion, down by PLN 0.4 billion (or 1.0%) compared to the end of 2016. The change in total assets was predominantly due to the following events:

- decrease in the balance of debt securities available-for-sale by PLN 1.8 billion or 9.2%, mainly due to the decreasing value of Treasury bonds portfolio;
- decrease in financial assets held for trading by PLN 1.8 billion, or 46.3%, mainly due to the reduced position in NBP monetary bills;
- increase in assets related to cash and balances with the Central Bank by PLN 1.6 billion, or 233.4%, as a result of maintaining the obligatory reserve.

Net amounts due from customers had the biggest share in the Group's total assets at the end of Q1, 2017. As of the end of March 2017 they accounted for 42.9% of total assets. The value of net amounts due from customers as of the end of Q1, 2017 amounted to PLN 19.2 billion, up by PLN 0.4 billion (or 1.9%) compared to the end of 2016. Excluding the receivables related to reverse repo transactions, net amounts due from customers increased by PLN 0.3 billion (or 1.6%). In the non-financial sector, receivables grew on the institutional clients side (PLN +0.4 billion, or 2.9%, increase in GSG and Commercial Bank). Excluding the reverse repo transactions, receivables on the institutional clients side amounted to PLN 0.3 billion (or 2.4%). The non-financial sector receivables on the retail customers side remained almost flat.

Net amounts due from customers

PLN '000	31.03.2017	31.12.2016	Change	
			PLN '000	%
Amounts due from financial sector entities, including:	1,972,488	1,690,254	282,234	16.7%
Receivables related to reverse repo transactions	56,795	-	56,795	-
Amounts due from non-financial sector entities, including:	17,245,096	17,169,799	75,297	0.4%
Institutional clients*	10,835,472	10,757,372	78,100	0.7%
Individual clients, including:	6,409,624	6,412,427	(2,803)	-
unsecured receivables	5,086,393	5,096,265	(9,872)	(0.2%)
mortgage loans	1,323,231	1,316,162	7,069	0.5%
Total net receivables from customers	19,217,584	18,860,053	357,531	1.9%

*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	31.03.2017	31.12.2016	Change	
			PLN '000	%
Without recognized impairment, including:	19,158,861	18,790,328	368,533	2.0%
non-financial sector entities	17,184,313	17,099,400	84,913	0.5%
institutional clients*	10,803,197	10,719,577	83,620	0.8%
individual clients	6,381,116	6,379,823	1,293	0.0%
With recognized impairment, including:	577,383	564,597	12,786	2.3%
non-financial sector entities	560,247	547,461	12,786	2.3%
institutional clients*	229,468	230,075	(607)	(0.3%)
individual clients	330,779	317,386	13,393	4.2%
Dues related to matured derivative transactions	68,155	68,549	(394)	(0.6%)
Total gross receivables from customers, including:	19,804,399	19,423,474	380,925	2.0%
non-financial sector entities	17,744,560	17,646,861	97,699	0.6%
institutional clients*	11,032,665	10,949,652	83,013	0.8%
individual clients	6,711,895	6,697,209	14,686	0.2%
Impairment, including:	(586,815)	(563,421)	(23,394)	4.2%
dues related to matured derivative transactions	(59,981)	(60,057)	76	(0.1%)
Total net receivables from customers	19,217,584	18,860,053	357,531	1.9%
Impairment coverage ratio with recognized	91.3%	89.2%		

PLN '000	31.03.2017	31.12.2016	Change	
			PLN '000	%
impairment**				
institutional clients*	89.5%	87.3%		
individual clients	91.4%	89.7%		
Non-performing loans ratio (NPL)	2.9%	2.9%		

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

**Ratio calculated with IBNR impairment

In the first quarter of 2017 amounts due to customers were the dominant source of financing of the Group's activity and constituted 70.9% of the Group's liabilities and own funds. Total amounts due to customers as of the end of March 2017 amounted to PLN 31.7 billion, down by PLN 2.2 billion (or 6.5%) compared to the end of 2016, which was mainly due to a high level of current account balances of institutional clients, including public sector entities, as of the end of 2016.

Amounts due to banks were PLN 3.0 billion as of the end of the first quarter 2017, which represented 6.6% of the Group's liabilities and own funds. As compared to the end of 2016 amounts due to banks increased by PLN 0.7 billion (or 28.4%), inter alia due to an increase in the current account balances.

Amounts due to customers

PLN '000	31.03.2017	31.12.2016	Change	
			PLN '000	%
Current accounts, including:	20,837,051	22,973,094	(2,136,043)	(9.3%)
financial sector entities	537,352	671,625	(134,273)	(20.0%)
non-financial sector entities, including:	20,299,699	22,301,469	(2,001,770)	(9.0%)
institutional clients*, including:	11,935,531	14,021,387	(2,085,856)	(14.9%)
budgetary units	2,717,626	3,126,039	(408,413)	(13.1%)
individual clients	8,364,168	8,280,082	84,086	1.0%
Term deposits, including:	10,680,466	10,845,913	(165,447)	(1.5%)
financial sector entities	3,750,788	4,024,501	(273,713)	(6.8%)
non-financial sector entities, including:	6,929,678	6,821,412	108,266	1.6%
institutional clients*, including:	5,011,168	5,152,519	(141,351)	(2.7%)
budgetary units	808,980	110,660	698,320	631.1%
individual customers	1,918,510	1,668,893	249,617	15.0%
Total customers deposits	31,517,517	33,819,007	(2,301,490)	(6.8%)
Other amounts due to customers	207,588	117,504	90,084	76.7%
Total amounts due to customers	31,725,105	33,936,511	(2,211,406)	(6.5%)

* 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 2017, the Group delivered a consolidated net profit of PLN 42.7 million, down by PLN 61.7 million (or 59.1%) compared to the first quarter, 2016. At the same time revenues of the Group increased by PLN 18.0 million (or 4.0%) to PLN 467.1 million.

The main determinants of the Group's operating result in the first quarter of 2017 when compared to the first quarter of 2016 were the following:

- net interest income of PLN 254.3 million versus PLN 247.4 million in the first quarter 2016, up by PLN 6.9 million (or 2.8%). Interest income in the first quarter 2017 increased by PLN 5.1 million (or 1.7%), compared to the corresponding period of 2016 and amounted to PLN 312.3 million. Interest from amounts due from customers, constituting the main source of interest income, amounted to PLN 219.3 million, up by PLN 19.4 million (or 9.7%) compared to the first quarter, 2016, due to the positive impact of the credit margin. On the other hand, interest income from debt securities held-for-trading dropped by PLN 9.7 million (or 54.3%) and debt securities available-for-sale dropped by PLN 6.4 million (or 8.0%), mainly due to lower average securities volumes. At the same time interest expenses in the first quarter 2017 dropped by PLN 1.8 million (or 3.0%) compared the corresponding period of 2016. The decrease was mainly due to lower interest expenses on amounts due to banks by PLN 8.4 million (or 54.2%), partially offset by higher interest expenses on amounts due to non-financial and financial sector entities.

Net interest income

PLN '000	01.01 - 31.03.2017	01.01 - 31.03.2016	Change	
			PLN '000	%
Interest and similar income from:				
Balances with the Central Bank	4,060	4,409	(349)	(7.9%)
Amounts due from banks	5,966	5,345	621	11.6%
Amounts due from customers, in respect of:	219,313	199,893	19,420	9.7%
financial sector	11,911	4,457	7,454	167.2%
non-financial sector, including:	207,402	195,436	11,966	6.1%
credit cards	70,184	66,546	3,638	5.5%
Debt securities available-for-sale	73,367	79,748	(6,381)	(8.0%)
Debt securities held-for-trading	8,137	17,816	(9,679)	(54.3%)
Liabilities with negative interest rate	1,487	-	1,487	-
	312,330	307,211	5,119	1.7%
Interest expense and similar charges on:				
Amounts due to banks	(7,124)	(15,547)	8,423	(54.2%)
Amounts due to financial sector entities	(12,964)	(11,883)	(1,081)	9.1%
Amounts due to non-financial sector entities	(30,882)	(25,875)	(5,007)	19.4%
Loans and advances received	(177)	(269)	92	(34.2%)
Assets with negative interest rate	(277)	-	(277)	-
Derivative instruments in hedge accounting	(6,630)	(6,251)	(379)	6.1%
	(58,054)	(59,825)	1,771	(3.0%)
Net interest income	254,276	247,386	6,890	2.8%

- net fee and commission income of PLN 134.3 million versus PLN 142.6 million in the first quarter 2016 – a decrease of PLN 8.3 million (or 5.9%) was primarily a result of a lower result on insurance and investment products distribution by PLN 8,5 million (or 32.6%) in connection with the new regulatory requirements for group insurance products. The biggest item in net fee and commission income, i.e. fee and commission income on payment and credit cards, declined by PLN 2.8 million (or 8.3%).

Net fee and commission income

PLN '000	01.01 - 31.03.2017	01.01 - 31.03.2016	Change	
			PLN '000	%
Fee and commission income				
Insurance and investment products distribution	17,546	26,014	(8,468)	(32.6%)
Payment and credit cards	37,690	39,437	(1,747)	(4.4%)
Payment orders	25,385	25,576	(191)	(0.7%)
Custody services	29,656	27,887	1,769	6.3%
Cash loans fees	165	539	(374)	(69.4%)
Brokerage activity	13,413	10,086	3,327	33.0%
Clients' cash on account management services	6,926	6,198	728	11.7%
Guarantees granted	4,451	4,487	(36)	(0.8%)
Financial liabilities granted	1,454	1,334	120	9.0%
Other	18,656	19,958	(1,302)	(6.5%)
	155,342	161,516	(6,174)	(3.8%)
Fee and commission expense				
Payment and credit cards	(7,178)	(6,157)	(1,021)	16.6%
Brokerage activity	(4,009)	(3,370)	(639)	19.0%
Fees paid to the National Depository for Securities (KDPW)	(5,034)	(4,460)	(574)	12.9%
Brokerage fees	(1,086)	(1,258)	172	(13.7%)
Other	(3,742)	(3,631)	(111)	3.1%
	(21,049)	(18,876)	(2,173)	11.5%
Net fee and commission income				
Insurance and investment products distribution	17,546	26,014	(8,468)	(32.6%)

PLN '000	01.01 - 31.03.2017	01.01 - 31.03.2016	Change	
			PLN '000	%
Payment and credit cards	30,512	33,280	(2,768)	(8.3%)
Payment orders	25,385	25,576	(191)	(0.7%)
Custody services	29,656	27,887	1,769	6.3%
Cash loans fees	165	539	(374)	(69.4%)
Brokerage activity	9,404	6,716	2,688	40.0%
Clients' cash on account management services	6,926	6,198	728	11.7%
Guarantees granted	4,451	4,487	(36)	(0.8%)
Financial liabilities granted	1,454	1,334	120	9.0%
Fees paid to the National Depository for Securities (KDPW)	(5,034)	(4,460)	(574)	12.9%
Brokerage fees	(1,086)	(1,258)	172	(13.7%)
Other	14,914	16,327	(1,413)	(8.7%)
Net fee and commission income	134,293	142,640	(8,347)	(5.9%)

- net income on trade financial instruments and revaluation of PLN 72.6 million versus PLN 38,2 million in the first quarter 2016, up by PLN 34.4 million and net gain on investment debt securities of PLN 5.0 million versus PLN 6.6 million in the first quarter 2016;
- result on other operating income and expenses in the amount of PLN -4.0 million versus PLN 10.1 million in the corresponding period of the previous year – a decline of PLN 14.0 million due to one-off events in the first quarter 2016, i.e. the reimbursement of VAT and the release of the litigation provision;
- general administrative and depreciation expenses of PLN 343 million versus PLN 313.1 million in the corresponding period of the previous year – up by PLN 29.9 million (or 9.6%) stemming primarily from higher general administrative expenses by PLN 50.6 million (or 35.3%) due the creation of the reserve for the compulsory bank restructuring fund contribution in the amount of PLN 60.9 million. The Fund is created from mandatory contributions made annually. Additionally, in the first quarter 2017 the Bank paid deposit guarantee fund contribution in the amount of PLN 2.6 million. This increase was partially offset by lower staff expenses as a result of reduced headcount. Total employment in the Group in the reporting period declined by 272 FTEs.

General administrative expenses and depreciation expense

PLN '000	01.01 - 31.03.2017	01.01 - 31.03.2016	Change	
			PLN '000	%
Staff expenses	(132,602)	(151,352)	18,750	(12.4%)
Remuneration costs	(97,914)	(105,928)	8,014	(7.6%)
Bonuses and rewards	(15,887)	(23,186)	7,299	(31.5%)
Social security costs	(18,801)	(22,238)	3,437	(15.5%)
Administrative expenses	(193,722)	(143,156)	(50,566)	35.3%
Telecommunication fees and hardware purchase costs	(49,536)	(46,184)	(3,352)	7.3%
Costs of external services, including advisory, audit, consulting services	(14,824)	(15,739)	915	(5.8%)
Building maintenance and rent costs	(17,106)	(16,985)	(121)	0.7%
Marketing costs	(8,342)	(5,198)	(3,144)	60.5%
Costs of cash management services, costs of cleaning services and other transaction costs	(9,187)	(9,573)	386	(4.0%)
Costs of external services related to distribution of banking products	(6,734)	(4,032)	(2,702)	67.0%
Postal services, office supplies and printmaking costs	(2,343)	(2,827)	484	(17.1%)
Training and education costs	(467)	(395)	(72)	18.2%
Banking and capital supervision costs	(2,977)	(2,596)	(381)	14.7%
Bank Guarantee Funds costs	(63,394)	(17,315)	(46,079)	266.1%
Other expenses	(18,812)	(22,312)	3,500	(15.7%)
Depreciation and amortization	(16,646)	(18,549)	1,903	(10.3%)
General administrative expenses and depreciation expense, total	(342,970)	(313,057)	(29,913)	9.6%

- net impairment due to financial assets and provisions for granted financial liabilities and guarantees PLN (-29.4) million compared to the reversal of net impairment losses of PLN 5.5 million in the first quarter 2016. The higher level of provisions in the Institutional Banking segment was primarily due to a higher risk of default of SME borrowers in the individually assessed portfolio. The Consumer Banking segment reported net impairment losses of PLN -15,8 million in the first quarter 2017 versus PLN -12.2 million in the first quarter 2016. The increase in net

impairment losses by PLN 3.6 million is a result of the increased impaired loan balances in connection with the impaired portfolio growth and the increase in the average age of the portfolio.

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

PLN '000	01.01 -	01.01 -	Change	
	31.03.2017	31.03.2016	PLN '000	%
Impairment allowances for financial assets				
Amounts due from banks	(124)	(2,060)	1,936	(94.0%)
Amounts due from customers	(51,701)	(40,469)	(11,232)	27.8%
Receivables from matured derivative transactions	(1)	(7)	6	(85.7%)
	(51,826)	(42,536)	(9,290)	21.8%
Reversals of impairment allowances for financial assets				
Amounts due from banks	200	2,944	(2,744)	(93.2%)
Amounts due from customers	20,183	35,501	(15,318)	(43.1%)
Receivables from matured derivative transactions	77	754	(677)	(89.8%)
Recoveries from sold debts	59	8,125	(8,066)	(99.3%)
Other	1,596	1,153	443	38.4%
	22,115	48,477	(26,362)	(54.4%)
Net impairment allowances financial assets	(29,711)	5,941	(35,652)	(600.1%)
Created provisions for granted financial and guarantee commitments	(2,881)	(5,411)	2,530	(46.8%)
Releases of provisions for granted financial and guarantee commitments	3,178	4,989	(1,811)	(36.3%)
Net impairment allowances provisions for granted financial and guarantee commitments	297	(422)	719	(170.4%)
Net impairment allowances financial assets and provisions for granted financial liabilities and guarantees	(29,414)	5,519	(34,933)	(633.0%)

- The total charge to the income statement of the Group due to the tax on certain financial institutions in the first quarter 2017 amounted to PLN 19.6 million compared to PLN 13.1 million in the first quarter 2016 (higher amounts results that the tax was implemented in the February 2016).

3. Financial Ratios

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

Total financial ratios	Q1 2017	Q1 2016
ROE *	8.7%	8.2%
ROA**	1.2%	1.0%
Cost/Income	73%	73%
Loans to non-financial sector/Deposits from non-financial sector	63%	64%
Loans to non-financial sector/Total assets	39%	33%
Net interest income/Revenue	54%	55%
Net fee and commission income/Revenue	29%	32%

*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	
	31.03.2017	31.03.2016	FTEs	%
Average employment in the first quarter	3,607	3,926	(319)	(8.1%)
Employment at the end of quarter	3,600	3,872	(272)	(7.0%)

*does not include employees on parental and unpaid leave

Total capital adequacy ratio*

PLN '000	31.03.2017	31.12.2016
I Tier I capital	4,811,647	4,796,869
II Total capital requirements, including:	2,225,438	2,199,922
credit risk capital requirements	1,720,557	1,687,217
counterparty risk capital requirements	70,506	65,908
Credit valuation adjustment capital requirements	53,882	63,927
capital requirements for excess of exposures' concentration limit and large exposures' limit	14,164	1,792
total market risk capital requirements	77,817	74,357
operational risk capital requirements	288,512	306,721
Tier I capital ratio	17,3%	17,4%

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

Consumer Banking

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

Consolidated income statement of the Group by business segment

PLN '000	For the period			01.01. – 31.03.2016		
	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	111,552	142,724	254,276	107,431	139,955	247,386
Internal interest income, including:	(7,011)	7,011	-	(11,133)	11,133	-
Internal income	-	7,011	7,011	-	11,133	11,133
Internal expenses	(7,011)	-	(7,011)	(11,133)	-	(11,133)
Net fee and commission income	63,389	70,904	134,293	65,956	76,684	142,640
Dividend income	-	-	-	1	-	1
Net income on financial instruments and revaluation	64,406	8,229	72,635	30,357	7,873	38,230

For the period	01.01. – 31.03.2017			01.01. – 31.03.2016		
	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
<i>PLN '000</i>						
Net gain on debt investment securities available-for-sale	4,986	-	4,986	6,624	-	6,624
Net gain on equity investment instruments available-for-sale	292	-	292	-	-	-
Net gain/(loss) on hedge accounting	4,581	-	4,581	4,157	-	4,157
Net other operating income	4,449	(8,420)	(3,971)	9,077	997	10,074
General administrative expenses	(165,098)	(161,226)	(326,324)	(128,615)	(165,893)	(294,508)
Depreciation and amortization	(5,006)	(11,640)	(16,646)	(5,538)	(13,011)	(18,549)
Profit on sale of other assets	2	-	2	9	-	9
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(13,648)	(15,766)	(29,414)	17,679	(12,160)	5,519
Operating income	69,905	24,805	94,710	107,138	34,445	141,583
Share in net profits of entities valued at equity method	2	-	2	(1)	-	(1)
Tax on certain financial institutions	(14,298)	(5,295)	(19,593)	(9,645)	(3,492)	(13,137)
Profit before tax	55,609	19,510	75,119	97,492	30,953	128,445
Income tax expense			(32,463)			(24,074)
Net profit			42,656			104,371

State as at	31.03.2017			31.12.2016		
<i>PLN '000</i>	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Total assets	38,017,746	6,744,530	44,762,276	38,493,344	6,716,572	45,209,916
Total liabilities and shareholders' equity, including:	32,036,204	12,726,072	44,762,276	32,836,784	12,373,132	45,209,916
Liabilities	26,599,805	11,297,611	37,897,416	27,443,762	10,975,704	38,419,466

8 Activities of the Group

1. Institutional Banking

1.1. Summary of segment results

<i>PLN '000</i>	Q1 2017	Q1 2016	Change	
			PLN '000	%
Net interest income	111,552	107,431	4,121	3.8%
Net fee and commission income	63,389	65,956	(2,567)	(3.9%)
Net income on dividends	-	1	(1)	(100.0%)
Net income on trading financial instruments and revaluation	64,406	30,357	34,049	112.2%
Net gain on debt investment securities available-for-sale	4,986	6,624	(1,638)	(24.7%)
Net gain on equity investment instruments available-for-sale	292	-	292	-
Net gain/(loss) on hedge accounting	4,581	4,157	424	10.2%
Net other operating income	4,449	9,077	(4,628)	(51.0%)
Total income	253,655	223,603	30,052	13.4%
General administrative expenses and depreciation	(170,104)	(134,153)	(35,951)	26.8%
Profit on sale of other assets	2	9	(7)	(77.8%)
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(13,648)	17,679	(31,327)	(177.2%)
Share in net profits of entities valued at equity method	2	(1)	3	(300.0%)
Tax on certain financial institutions	(14,298)	(9,645)	(4,653)	48.2%
Profit before tax	55,609	97,492	(41,883)	(43.0%)
Cost/Income	67%	60%		

The key highlights that impacted the gross profit of the Institutional Banking segment for the first quarter of 2017 compared to the corresponding period of the previous year were as follows:

- an increase in net interest income due to higher interest income from amounts due from customers liabilities and due to the positive effect of credit margin, partially offset by a decline in interest income from debt securities available-for-sale and debt securities held-for-trading due to their lower average volume. At the same time interest expense on amounts due to non-financial sector customers grew due to an increase in the volume of deposits for these customers;
- an increase in net income from trade financial instruments and revaluation by PLN 34.0 million y/y;
- a decrease in net income on debt investment securities by PLN 1.6 y/y;
- an increase in general administrative expenses and depreciation as a result of booking of reserves on charge to Banking Resolution Fund and higher technological costs, partially lowered by decrease of bonuses and reward expenses;
- an increase in net impairment write-offs by PLN 31.3 million y/y (net impairment of PLN -13.6 million in the first quarter of 2017 versus a reversal of PLN 17.7 million in the first quarter 2016), mainly due to a higher risk of default of SME borrowers in the individually assessed portfolio.

1.2. Institutional Bank and the Capital Markets

Institutional Bank

As regards corporate and commercial 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 first quarter 2017, the number of institutional clients (including strategic, global and corporate banking clients) amounted to 6,100, a decline of 8% compared to end of first quarter 2016 when the number of clients reached 6,600. As part of the Commercial Bank (small and medium businesses, large enterprises and the public sector), the Bank provided services to 3,700 clients as at the end of first quarter 2017 (which means a decrease of 15% as compared to 4,300 clients at the end of the first quarter 2016).

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 competitive and innovative financing structures offered by the Bank rely on the combination of its expertise and experience as well as on collaboration within the global Citigroup structure.

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

Assets*

	31.03.2017	31.12.2016	31.03.2016	Change		Change	
	(1)	(2)	(3)	(1)/(2)	%	(1)/(3)	%
<i>PLN million</i>				PLN million	%	PLN million	%
Enterprises*, including:	4,783	4,669	4,751	114	2%	32	1%
SMEs	1,851	1,873	1,796	(22)	(1%)	55	3%
MMEs	2,932	2,796	2,955	136	5%	(23)	(1%)
Public Sector	133	92	125	41	45%	8	6%
Global Clients	2,601	2,389	2,598	212	9%	3	0%
Corporate Clients	4,787	5,016	3,685	(229)	(5%)	1,102	30%
Other*	15	7	28	8	114%	(13)	(46%)
Total Institutional Banking	12,319	12,173	11,187	146	1%	1,132	10%

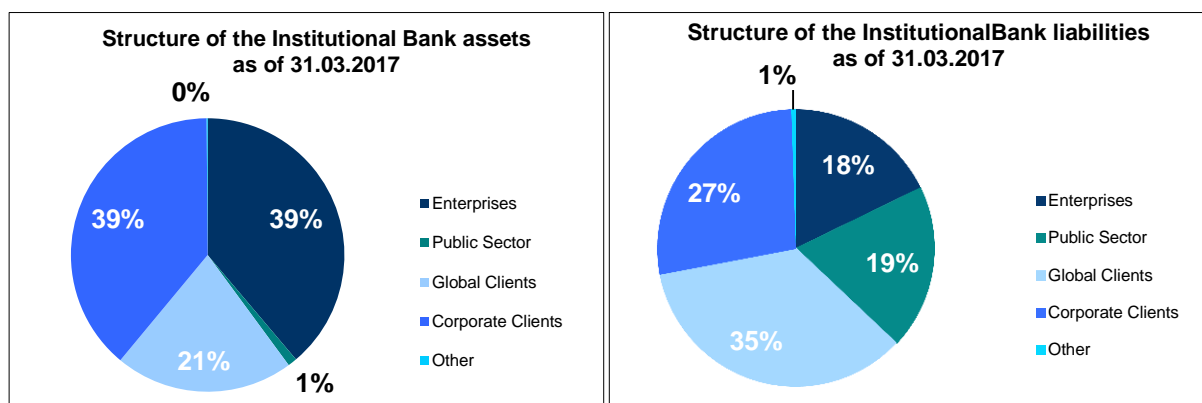
Liabilities*

	31.03.2017	31.12.2016	31.03.2016	Change		Change	
	(1)	(2)	(3)	(1)/(2)	%	(1)/(3)	%
<i>PLN million</i>				PLN million	%	PLN million	%
Enterprises*, including:	3,646	3,876	3,518	(230)	(6%)	128	4%
SMEs	2,315	2,428	2,465	(113)	(5%)	(150)	(6%)
MMEs	1,331	1,448	1,053	(117)	(8%)	278	26%
Public Sector	3,935	3,823	2,373	112	3%	1,562	66%

	31.03.2017	31.12.2016	31.03.2016	Change		Change	
				(1)/(2)	(1)/(3)		
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Global Clients	7,179	9,031	7,845	(1,852)	(21%)	(666)	(8%)
Corporate Clients	5,628	6,225	6,836	(597)	(10%)	(1,208)	(18%)
Other**	97	86	207	11	13%	(110)	(53%)
Total Institutional Banking	20,485	23,041	20,779	(2,556)	(11%)	(294)	(1%)

* 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.



Key transactions and successes of Corporate and Commercial Bank in the first quarter 2017:

- In the Strategic and Global Clients segment:
 - acting as the Mandated Lead Arranger in financing for a car industry investor, amounting to PLN 1.3 billion (with the Bank's share amounting to PLN 150 million). This project is of strategic significance from the point of view of the client's global business and at the same time strengthens its long-term cooperation with the Bank;
 - signing an agreement on granting two-year financing amounting to PLN 400 million to an international retail trade group;
 - successful tendering for the provision of financing for one of the largest retail chains in Poland and signing a loan agreement amounting to PLN 300 million;
 - increasing working capital financing for an automotive distribution company by PLN 200 million;
 - signing a reverse factoring contract amounting to PLN 245 million with a leading player on the electricity and combined heat and power generation market in Poland.
- In the Commercial Bank segment, the Bank granted, *inter alia*:
 - an increase in revolving loan by PLN 70 million to a manufacturer of footwear and leather products;
 - a revolving loan amounting to PLN 67 million for land transport support activities;
 - a long-term loan amounting to PLN 32 million to finance machinery, equipment and vehicles purchase;
 - a revolving loan amounting to PLN 30 million for retail sales of audio and video equipment;
 - an overdraft facility amounting to PLN 20 million for the manufacture of plastic construction products;
- a long-term loan amounting to PLN 25 million for general public administration services; an overdraft facility of PLN 10 million for the production of electricity distribution and control apparatus.

Activity and business achievements of the Treasury Division

- In the first quarter 2017, 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 entrusted to the Bank for the fourth time in a row, which confirms our leadership in this market segment.
- For its 2016 activities, the Bank also received awards from the Warsaw Stock Exchange in the following categories:
 - Treasury BondSpot Poland market making leader;
 - the first operator of an account maintained for a global participant of the National Depository for Securities;

- special award for particular contribution to the development of the Treasury BondSpot Poland market in 2016.
- Electronic foreign exchange channels continue to attract strong interest from clients. Nearly 80% of all foreign exchange transactions are executed using this channel. Thanks to the CitiFX Pulse electronic platform, clients can trade on their own 24/7, access market data before closing the deal, and use functionalities supporting the analysis of currency exposures.
- In the first quarter 2017, the Bank was active on the debt securities and consortium loan market by participating in the following transactions:
 - Carry out consortium bond issue of PLN 1,5 billion for European Investment Bank increased series for 5 years for total amount PLN 3,25 bilion;
 - Carry out consortium bond issue of PLN 900 milion for European Investment Bank increased series for 10 years for total amount PLN 2 bilion;
 - Carry out consortium three year bonds issue of PLN 1,16 bilion for Bank Gospodarstwa Krajowego.

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;
- trade finance products.

Other Transactional Banking business events and achievements in the first quarter 2017:

- **Electronic banking**

In the first quarter 2017, 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 figures relating to electronic banking:

- as at end of the first quarter 2017, the number of institutional clients activated in the CitiDirect online banking system amounted to 3,300, and those activated in the CitiDirect EB (CitiDirect Banking Evolution) system numbered 3,100;
- the number of institutional clients actively using the system remained at a high level of more than 4,000 as at end of the first quarter 2017;
- the number of clients with mobile access to both aforementioned electronic banking systems was over 3,200 as at end of the first quarter 2017;
- the number of transactions processed electronically through the CitiDirect and CitiDirect EB systems was nearly 6.2 million in of the first quarter 2017.

- **Deposits and current accounts**

In the first quarter 2017, a rise in balances in institutional client accounts was observed as a result of the activation of both existing and new clients (acquired in the fourth quarter 2016). In the first quarter 2017, average monthly balances maintained in current accounts with the Bank grew by 16% in relation to the corresponding period of 2016; growth in the balances maintained in PLN accounts reached 32%.

- **Business cards**

In the first quarter 2017, there was a significant increase in the number and value of non-cash transactions (by 11% and 6%, respectively) compared to the first quarter 2016. The increases recorded were mainly attributable to the consistent policy of attracting high transaction volumes and activating the portfolio of existing clients.

- **Prepaid cards**

In the first quarter 2017, the Bank reported an increase by 12% in the value of non-cash transactions executed with prepaid cards compared to the corresponding period of 2016.

- **Visa Business Debit Cards**

In the first quarter 2017, the Bank migrated Visa Business Debit Cards to a new platform that supports chip cards. Debit cards equipped with microchips are more secure and the fact that they are handled using an advanced platform offers additional parameterization capabilities e.g. with respect to transaction monitoring and acceptance network availability.

- **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.

The Bank handled 13% more strategic client transfer orders and 5% more global client transfer orders than in the corresponding period of 2016.

- **Cash products**

The Bank provides its clients with comprehensive cash management services. A vast majority of over-the-counter deposits are sealed, i.e., they are delivered to the Bank in sealed packages and counted without the client being present. The service may be provided nationwide at more than 1,200 cash centers. The share of cash in domestic transactions remains at a constant, very high level.

Additionally, the Bank provides open deposit services at more than 4,500 locations thanks to its partnership with Poczta Polska S.A.

Cash deposits may be made directly into the clients' accounts with the Bank. The Bank offers clients the option to make cash deposits into virtual accounts; as a result, the information necessary to identify deposits is included directly in the account number, which minimizes the risk of incorrect (unidentified) payments.

In order to meet the clients' needs, the Bank has introduced a solution designed to optimize the activities related to the preparation of sealed deposits, accessing the status of the sealed deposits made and the reporting of expected funds.

In addition to deposits, the Bank's clients also use cash withdrawals – both traditional over-the-counter withdrawals and sealed cash packages.

The Bank has expanded its partnership with Poczta Polska S.A. The Bank's offerings include cash withdrawals commissioned using the Bank's electronic banking system and effected at all branches of Poczta Polska S.A. nationwide as well as money orders, which are a convenient method of delivering cash directly to the recipient.

- **Direct debit**

The Bank provides its clients with comprehensive receivables processing. The direct debit market is a segment where services of this type are provided. In the first quarter 2017, the Bank strengthened its position as the market leader and processed the biggest number of direct debits as the creditor's bank another year in a row.

At the same time, the Bank continued the transition to the digital handling of direct debit authorizations by handling around 63% of authorizations electronically.

- **SpeedCollect**

SpeedCollect is a service that allows automated booking of liabilities 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 2016.

- **EU-oriented advisory services**

In the first quarter 2017, the Bank participated in certain measures related to the EU Financial Perspective 2014–2020 where banks are important partners in the distribution of European funds and in the financing of investments co-financed with subsidies and repayable assistance instruments. Those measures included primarily the participation in the work of thematic working groups of the Polish Bank Association and cooperation with Bank Gospodarstwa Krajowego, which implemented the tasks related to the "Loan for Technological Innovation" project within the framework of the Smart Growth Operational Program in order to finance innovative projects by small and medium-sized enterprises (SMEs).

- **Trade finance products**

In the first quarter 2017, Trade Finance maintained a high level of financial assets, which was primarily the consequence of the Supplier Finance Programs consistently developed and two significant transactions related to the Trade Credit scheme.

In addition, in order to streamline operational processes and optimize costs, Trade Finance replaced statements related to Trade Credit transactions with reports automatically generated by the Citi Trade Portal electronic system and with e-mail statements.

Another important change in the product area was starting work on the granting of bank guarantees in electronic form, which will be provided by Citi Secure Email to those beneficiaries who opt for this product. These guarantees will be signed using a qualified electronic signature issued by the National Clearing House.

Key trade finance transactions in the first quarter 2017 included:

- the granting of two loans under the Trade Credit scheme to companies from the pharmaceutical and mining industries for a total amount of PLN 350 million;
- granting financing under the Reverse Factoring scheme amounting to PLN 250 million in total to a company from the energy industry;
- granting a number of bank guarantees, including one with a significant amount, to construction companies, totaling PLN 110 million.

Custody services

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

As at 31 March 2017, the Bank maintained more than 9,000 securities accounts and omnibus accounts.

At the same time, the Bank served as depositary for four open-end pension funds (OFE): Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE and Nordea OFE; three voluntary pension funds: Nationale-Nederlanden DFE, DFE Pekao and Generali DFE, and also for the PFE Orange Polska occupational pension fund.

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

Brokerage activities

The Group pursues brokerage activity on the capital market via Dom Maklerski Banku Handlowego S.A. brokerage house, which is wholly owned by the Bank.

In the first quarter 2017, DMBH brokered session transactions representing 9.3% of equity turnover in the secondary market. The value of session transactions executed via DMBH in the equity market on the Warsaw Stock Exchange (WSE) amounted to PLN 12.3 billion and rose by 38% in relation to the corresponding period of the preceding year while trading on the WSE increased by 49.9%. The change in relation to the previous quarter was high as well, since the value of session transactions executed by the Company increased by as much as 21.2% while the change in turnover on the WSE was 20.6%. This has been the best result since the third quarter 2014.

At the end of the first quarter 2017, DMBH was the Market Maker for the shares of 65 companies listed on the Warsaw Stock Exchange (including 20 covered by the WIG 20 broad market index). That represented 13.3% of all shares traded on the WSE main market.

In the DMBH consumer segment, the strategy of intensifying cooperation with the Bank was pursued further in the first quarter 2017. Once again, subscriptions for closed-end investment fund investment certificates and Treasury bond sales contributed to record-high results in that segment for DMBH. The first quarter 2017 also saw considerable activity by consumers 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 Citi Priority Clients (CPC), revenues from fees in foreign markets supplemented the traditional revenue stream from client activity on the Warsaw Stock Exchange to a significant extent.

DMBH maintained 12,970 investment accounts at the end of the first quarter 2017, an increase of 19.5% compared to the corresponding period of 2016 and 4.6% compared to the end of the previous quarter. 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 the first quarter 2017, DMBH closed the following deals on the capital market:

- Cyfrowy Polsat – DMBH was the Book Runner in the sale of own shares by EBRD; transaction value was PLN 384 million (the transaction was settled in January);
- Uniwheels AG – DMBH was an intermediary in the tender offer for a 100% stake in Uniwheels AG announced by Superior Industries International Germany AG (the transaction will be finally settled on 30 May).

Summary Income Statement and Balance Sheet

Company's Name	Headquarter	% of authorized capital held by the Bank	Total assets 31.03.2017	Total equity 31.03.2017	Net financial result for the period of 01.01-31.03.2017
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	646,666	112,253	3,004

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.

From the point of view of DMBH activities in the coming quarters, a key factor may be the planned changes to the pension system (replacing the 2nd pillar with Occupational and Individual Capital Plans). The lack of significant inflows of new money to domestic funds with exposure to the equity market largely reduces their demand for equity instruments. Additionally, greater competition from remote WSE members has been observed in the domestic equity market.

Leasing activities

In the fourth quarter 2016, a decision was made on the purchase by the Bank of the remaining working lease portfolio from Handlowy Leasing Sp. z o.o. The transaction was executed at the end of the first quarter 2017.

Leasing products continue to be offered by the Bank's Group and are made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group. .

Summary Income Statement and Balance Sheet

Company's Name	Headquarters	% of authorized capital held by the Bank	Total assets 31.03.2017	Total equity 31.03.2017	Net financial result for the period of 01.01-31.03.2017
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	43,880	35,941	42

2. Consumer Banking

2.1. Summary of the segmental results

PLN '000	Q1 2017	Q1 2016	Change	
			PLN '000	%
Net interest income	142,724	139,955	2,769	2.0%
Net fee and commission income	70,904	76,684	(5,780)	(7.5%)
Net income on trading financial instruments and revaluation	8,229	7,873	356	4.5%
Net other operating income	(8,420)	997	(9,417)	-
Total income	213,437	225,509	(12,072)	(5.4%)
General administrative expenses and depreciation	(172,866)	(178,904)	6,038	(3.4%)
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(15,766)	(12,160)	(3,606)	29.7%
Tax on certain financial institutions	(5,295)	(3,492)	(1,803)	51.6%
Profit before tax	19,510	30,953	(11,443)	(37.0%)
Cost/Income	81%	79%		

The key highlights that impacted the gross profit of the Consumer Banking Segment in first quarter 2017 when compared to the corresponding period of 2016 were as follows:

- an increase in interest income as a result of the credit portfolio growth (+4% y/y) and a decrease in interest expenses, which was achieved despite the substantial increase in the deposit balances (+13% y/y) as a result of a favorable change in the structure of the deposit portfolio (increasing the share of current deposits while reducing fixed-term deposits);
- a decrease in net fee and commission income from investment products (in connection with the new regulatory requirements for group insurance), the decreases were partially offset by adjusting the table of fees and commissions to the customer segmentation model in accordance with the Bank's strategy, i.e. preferential

conditions only for those customers who have a deep relationship with the Bank (free account maintenance, preferential FX rates and free investment advice);

- a decline in operating expenses as a result of restructuring. The funds saved in this way were in its main part reinvested in marketing

2.2. Selected business data

PLN '000	Q1 2017	Q4 2016	Q1 2016	Change QoQ	Change YoY
Number of individual customers	684.3	680.8	679.7	3.5	4.6
Number of current accounts, including:	457.9	456.2	464.6	1.7	(6.7)
number of operating accounts*	97.6	95.1	94	2.5	3.6
Number of operating accounts newly acquired during the reported period	15.4	12.1	14.0	3.3	1.3
Number of saving accounts	148.1	150.1	155.9	(2.0)	(7.8)
Number of credit cards	701.3	698.6	696.7	2.7	4.6
Number of debit cards	265.7	248.3	269.1	17.5	(3.3)

*In the first quarter of 2017, there was a change in the classification of operating accounts. Previous quarters were adjusted.

Net receivables from individual clients – management view

PLN '000	31.03.2017	31.12.2016	31.03.2016	Change (1)/(2)		Change YoY	
	(1)	(2)	(3)	PLN '000	%	PLN '000	%
Unsecured receivables, including:	5,086,393	5,096,265	4,836,635	(9,872)	(0.2%)	249,758	5.2%
Credit cards	2,327,663	2,345,649	2,127,394	(17,986)	(0.8%)	200,269	9.4%
Cash loans	2,702,350	2,692,429	2,652,500	9,921	0.4%	49,850	1.9%
Other unsecured receivables	56,380	58,187	56,741	(1,807)	(3.1%)	(361)	(0.6%)
Mortgage loans	1,323,231	1,316,162	1,304,774	7,069	0.5%	18,457	1.4%
Net client receivables	6,409,624	6,412,427	6,141,409	(2,803)	(0.0%)	268,215	4.4%

2.3. Key Business Highlights

Bank accounts

• Current accounts

At the end of the first quarter 2017, the number of personal current accounts stood at 458,000 (as against 459,000 at the end of the first quarter 2016), of which 266,000 in Polish zlotys and 192,000 in foreign currencies. The total balance of current accounts amounted to over PLN 5.3 billion at end of the first quarter 2017, a growth of 16% on the corresponding period of the previous year. The increase in the balance has been the result of the Bank's strategy consisting of acquiring clients with medium and high incomes and strengthening relationships with existing clients.

• Savings accounts

The number of savings accounts at the end of the first quarter 2017 was 148,000. The total savings account balance was PLN 3.0 billion, compared to 156,000 savings accounts with a total balance of PLN 3.0 billion in the corresponding period of the preceding year.

• Changes in the offering

In March 2017, the revised Table of Fees and Charges took effect. Debit card fees and fees for transactions executed using the CitiPhone service or at Bank Branches were increased. A uniform Citi Priority personal account maintenance fee was introduced for all holders of this type of account, and the Citigold personal account maintenance fee and the criteria that make account holders eligible for a fee waiver or reduction were changed as well. At the same time, the Bank has continued to reward holders of new Citi Priority, Citigold and Citigold Private Client accounts by:

- promotional time deposit (Citi Priority) and "cash back" interest rates;
- gift cards to be used at shopping malls for new Citigold and Citigold Private Client clients;

Citigold Client and Citi Private Client recommendation program.

Credit cards

As at end the first quarter 2017, there were 701.3 credit cards. The card portfolio has continued its upward trend since the beginning of 2017 while the number of closed card accounts has declined.

The debt balance on credit cards as at the end of the first quarter 2017 amounted to PLN 2.3 billion, i.e. was 9% higher than in the same period of the previous 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 25.6%

according to the figures provided at the end of February 2017.

In the first quarter 2017, the number of credit cards issued was 15% higher than in the corresponding period of 2016. High activation levels and transaction volumes were maintained among newly acquired clients. The structure of credit cards sold in the first quarter 2017 was dominated by the Citi Simplicity card with a share of 91%.

Cash loans and cash loans associated with credit card accounts

Unsecured cash loans (cash loans and cash loans associated with credit card accounts) stood at PLN 2.7 billion as at end of the first quarter 2017, which was an increase of 2% compared to the corresponding period of the previous year.

In the first three months of 2017, total sales of unsecured cash advances, including cash advances for credit card holders, amounted to PLN 339.5 million.

In the first quarter 2017, the Bank recorded an increase in sales of unsecured products to new clients, acquiring 37% more clients compared to the same period in 2016.

The Bank maintained its cash loans sales model, focusing on remote sales, e.g. by phone or via the Bank's online platform, and also using simple direct sales processes, including among others at modern Smart and Smart Mini branches.

Mortgage products

In the first quarter 2017, 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. Mortgage product sales in the first quarter 2017 increased by 36% compared to the same period of 2016, while the balance of the mortgage loan portfolio at the end of the period discussed increased to PLN 1.3 billion.

Insurance and investment products

At the end of the first quarter 2017, the total value of investment products (including insurance products, net of bi-currency investments) purchased by consumers via the Bank was 13% higher than at the end of the corresponding period of 2016.

As concerns open-end investment funds, in the first quarter 2017 the Bank introduced six funds into its range of products on offer, all of which were debt funds.

Within the framework of its cooperation with DMBH, in the first quarter 2017 the Bank conducted eight subscriptions for investment certificates issued by closed-end investment funds and one public offering of bonds. As concerns structured products, in the same period the Bank conducted 22 structured bond subscriptions. The bonds were denominated in PLN (16 subscriptions), USD (3 subscriptions), EUR (2 subscriptions) and GBP (1 subscription).

2.4. Development of distribution channels

Online banking

In February 2017, a new version of the online platform for consumers and micro clients was released. The platform is based on responsive technology, i.e. it adapts to the device used by the client. Its modern design has been shaped by client comments, and its extensive functionality makes the use of other channels redundant. One of the many benefits for credit card holders is that they can manage their card limits themselves, divide transactions into installments and purchase insurance cover. An additional feature is the new documentation management module, which makes it possible to send correspondence, approve agreements and download certificates from home. More updates are planned in the coming months.

The number of active Citibank Online users, i.e. those who logged in to the Citibank Online service at least once every 30 days from their computers, amounted to 332,000 at the end of the first quarter 2017, representing an increase of over 10,000 users in relation to the corresponding period of 2016. The share of active Citibank Online users in the total portfolio of the Bank's clients amounted to 51% at the end of the first quarter 2017, representing an increase by 1 p.p. compared to the first quarter 2016.

As at the end of the first quarter 2017, 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 344,600, i.e. an increase of over 10,000 in relation to the corresponding period of 2016. At the same time, as at end the first quarter 2017 digital users accounted for 72% of all clients who executed transactions.

The share of transactions executed via online or mobile banking channels in total banking transactions at the end of the first quarter 2017 amounted to 98.6% and grew by 1.6 p.p. in relation to the corresponding period of 2016.

In the first quarter 2017, sales via online channels recorded significant growth compared to the first quarter 2016. The number of credit cards sold via the online channel grew by 59% y/y.

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 2016, 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 application has also been enhanced to include free push notifications that keep clients informed about changes in their account or card balances. The ability to activate fingerprint login has made access to the application even easier, which is very much appreciated by clients.

The number of active Citi Mobile users, i.e. those who accessed mobile banking services at least once every 30 days, exceeded 73,000 at the end of the first quarter 2017, an increase of ca. 25% compared to the first quarter 2016.

The share of active users of mobile banking in the Citi Handlowy consumer portfolio stood at 13%, which represents an increase by 2 p.p. over the same period of 2016.

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 of the first quarter 2017, following network optimization measures, the Smart Banking Ecosystem had 16 branches concentrated in ten major Polish cities.

Modern Smart branches are mostly located at the largest shopping malls and are available seven days a week during the opening hours of these malls; these are supported by Smart Mini mobile sales and service outlets.

The Smart Mini Format is a response to changing trends in consumer banking and in client behavior, which are reflected in the increasing use of remote access channels. Smart Mini is a model that ensures a mobile sales force, leveraging the short-term acquisition potential of different locations such as shopping malls, trade fairs and office complexes. In the first quarter 2017, three Smart Mini outlets operated in Kraków, Poznań and Janki near Warsaw.

Citigold and Citigold Private Client branches

As at the end of the first quarter 2017, the network devoted to serving affluent clients consisted of 11 branches. These are located in the largest Polish cities.

Within the network, there are two Smart Hub Gold branches, eight Hub Gold branches and one Investment Center.

In line with the strategy of developing a branch network dedicated to serving Citigold clients, a prestigious Hub Gold branch opened in the Q22 office building at ul. Jana Pawła II 22 in Warsaw. The move was a consequence of the transformation strategy pursued with respect to the branch network in Warsaw.

In order to ensure the highest standards of customer service for Citigold Private Clients, the Investment Center located at Pl. Piłsudskiego 2 in Warsaw was relocated to the Bank's head office at ul. Senatorska 16.

At the new locations, the Bank offers the full range of products to its clients, and the use of modern technologies such as iPad applications directly increases the efficiency of the transactions conducted. The new branches make it possible to offer new experience to affluent clients by serving them in prestigious spaces, and their optimum location in the city center ensures that easy access to the Bank's services is preserved.

Changes to the network of outlets

Number of branches and other Points of Sale/touch points

	31.03.2017 (1)	31.12.2016 (2)	31.03.2016 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	26	25	37	1	(11)
HUB Gold	8	7	8	1	-
Smart HUB Gold	2	2	2	-	-
Blue	-	-	10	-	(10)
Investment Center	1	1	2	-	(1)
Smart branch	14	14	14	-	-
Corporate branch	1	1	1	-	-
Other POS:					
Smart Mini	3	3	-	-	3

* 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

As of end of the first quarter 2017, the Bank had the following ratings awarded by Fitch Ratings ("Fitch"):

Long-term entity ranking	A-
Long-term rating outlook	stable
Short-term entity ranking	F1
Viability rating*	a-
Support rating	1
National long-term rating	AA+ (pol)
National short-term rating	F1+ (pol)

* 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 amortized cost in consolidated statement of financial position.

PLN '000	31.03.2017		31.12.2016	
	Balance value	Fair value	Balance value	Fair value
Financial assets				
Amounts due from banks	798,240	798,240	587,087	587,071
Amounts due from customers	19,217,584	19,216,329	18,860,053	18,878,719
Financial liabilities				
Amounts due to banks	2,967,581	2,967,579	2,310,742	2,310,776
Amounts due to customers	31,725,105	31,724,580	33,936,511	33,935,951

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 2017, among all equity investments, where fair value could not be established, the Group sold Shares in Odlewnie Polskie S.A. The balance value of sold shares amounted to PLN 42 thousand and the profit on sales to PLN 292 thousand.

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 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 2017

PLN '000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	1,079,321	951,246	-	2,030,567
derivatives	269	951,245	-	951,514
debt securities	1,054,963	1	-	1,054,964
capital instruments	24,089	-	-	24,089
Hedging derivatives	-	8,808	-	8,808
Debt securities available-for-sale	17,252,421	66,743	-	17,319,164
Equity investments available for sale	1,243	-	20,345	21,588
Financial liabilities				
Financial liabilities held-for-trading	432,164	1,031,968	-	1,464,132
short sale of securities	432,070	-	-	432,070
derivatives	94	1,031,968	-	1,032,062
Hedging derivatives	-	52,519	-	52,519

As at 31 December 2016

PLN'000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	2,613,789	1,167,616	-	3,781,405
derivatives	-	1,167,134	-	1,167,134
debt securities	2,604,546	482	-	2,605,028
equity instruments	9,243	-	-	9,243
Hedging derivatives	-	12,244	-	12,244
Debt securities available-for-sale	16,766,272	2,306,099	-	19,072,371
Equity investments available for sale	1,118	-	18,965	20,083

Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.
for the first quarter of 2017

TRANSLATION

PLN'000	Level I	Level II	Level III	Total
Financial liabilities				
Financial liabilities held-for-trading	208,305	1,097,309	-	1,305,614
short sale of securities	208,106	-	-	208,106
derivatives	199	1,097,309	-	1,097,508
Hedging derivatives	-	39,897	-	39,897

On the 31 March of 2017 the amount of financial assets classified to the Level III includes the share of PLN 20,345 thousand in Visa Inc. On the 31 of December 2016 that amount includes the share of PLN 18,965 thousand in Visa Inc.

The fair value valuation method takes into account the value of money in time, Visa preferred shares conversion into common shares as well as corrections resulting from legal cases (actual and potential) a party of which could be Visa or the Bank.

Changes in financial assets and liabilities in, measured at a fair value that was defined by using relevant parameters not-market based are presented below:

PLN '000	01.01.-31.03.2017	01.01.-31.12.2016
	Financial assets available- for-sale	Financial assets available-for-sale
	Equity investments	Equity investments
As at 1 January	18,965	63,323
Derecognition of valuation of shares	-	(63,323)
Recognition of valuation of shares	-	17,355
Revaluation	1,380	1,610
As at the end of period	20,345	18,965

As a result of the final allocation of settlement of the Visa Europe Limited takeover by Visa Inc. in 2016 the Bank recognized the profit on sale of shares and minority interest (AFS) in the amount of PLN 92,975 thousand, including received cash, deferred payment payable after 3 years since the date of the transaction and the valuation of Visa Inc. preferred shares.

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 2017 was PLN 1,928 thousands (31 December 2016: PLN 1,928 thousands).

In the 3 month period of 2017 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 2017 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 2017 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 2017 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.

On the 31 of March 2017 there was no significant change in fair value of financial instruments classified to portfolio available-for-sale in relation to the end of 2016. The decrease in the value of portfolio of financial instruments available-for-sale in relation to the end of 2016 was caused by a sell of Polish securities denominated in PLN and foreign currency dictated by the realization of profit.

The decrease in the value of portfolio of financial instruments held-for-trade in relation to the end of 2016 was caused by a sell of Polish securities denominated in PLN and foreign currency.

11 Impairment and provisions

PLN '000	As at 1 January 2017	Increases			Decreases			As at 31 March 2017
		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	177	124	-	(200)	-	-	(2)	99
Amounts due from customers	563,421	51,701	-	(20,259)	(6,703)	-	(1,345)	586,815
	563,598	51,825	-	(20,459)	(6,703)	-	(1,347)	586,914
Provisions for granted financial liabilities and guarantees								
	7,215	2,881	-	(3,178)	-	-	-	6,918
	570,813	54,706	-	(23,637)	(6,703)	-	(1,347)	593,832
Other assets impairment								
Capital investment	6,826	-	-	-	-	(179)	-	6,647
Tangible assets available for sale	1,388	-	-	-	-	-	-	1,388
Other assets	563	476	-	(586)	-	-	(12)	441
	8,777	476	-	(586)	-	(179)	(12)	8,476
Total impairment of assets and provisions for granted financial liabilities and guarantees								
	579,590	55,182	-	(24,223)	(6,703)	(179)	(1,359)	602,308
Other provisions								
Contentious issues	3,823	5,319	-	(74)	-	-	(11)	9,057
Restructuring	11,818	-	-	-	-	-	(5,342)	6,476
Total other provisions	15,641	5,319	-	(74)	-	-	(5,353)	15,533

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

PLN '000	As at 1 January 2016	Increases			Decreases			As at 31 December 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	3,426	-	(4,592)	-	-	(407)	177
Amounts due from customers	585,406	189,697	12,223	(114,305)	(47,346)	(62,254)	-	563,421
	587,156	193,123	12,223	(118,897)	(47,346)	(62,254)	(407)	563,598
Provisions for granted financial liabilities and guarantee								
	10,451	17,913	-	(21,149)	-	-	-	7,215
	597,607	211,036	12,223	(140,046)	(47,346)	(62,254)	(407)	570,813
Other assets impairment								
Capital investment	9,485	-	-	-	-	(2,659)	-	6,826
Tangible assets available for sale	1,401	-	-	-	-	(13)	-	1,388
Other assets	191	4,296	-	(3,885)	(9)	-	(30)	563
	11,077	4,296	-	(3,885)	(9)	(2,672)	(30)	8,777
Total impairment of assets								
	608,684	215,332	12,223	(143,931)	(47,355)	(64,926)	(437)	579,590

PLN '000	As at 1 January 2016	Increases		Decreases			As at 31 December 2016	
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale of receivables/oth er assets		Other*
and provisions for granted financial liabilities and guarantee								
Other provisions								
Contentious issues	10,522	1,571	-	(4,961)	-	-	(3,309)	3,823
Restructuring	2,521	16,030	-	(977)	-	-	(5,756)	11,818
Total other provisions	13,043	17,601	-	(5,938)	-	-	(9,065)	15,641

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

In the period 1 January – 31 March 2017 and in 2016 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	31.03.2017	31.12.2016
Asset due to differed income tax	409,290	406,659
Provision due to differed income tax	221,343	208,276
Net asset due to differed income tax	187,947	198,383

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 2017 the value of purchased by the Group components of "fixed assets" equaled PLN 8,217 thousand (in 2016: PLN 28,951 thousand); the value of sold components equals PLN 51 thousand (in 2016: PLN 1,346 thousand).

As at 31 March 2017 the Group has significant contract liabilities due to future purchase of tangible assets in the amount of PLN 10,900 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 2017 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 2017 no issue, pay back or repurchase of debt or equity securities had place.

17 Paid or declared dividends

Dividends declared

At the meeting on 22 March 2017, 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 2016 distribution, including the proposal of destination to pay out PLN 591,887,988.00, i.e. 98,0% of standalone net profit from 2016, as a dividend, which will be paid in the form of cash, resulting from, accepted by the Management Board on 14 March 2017 and approved by the Supervisory Board on 22 March 2017, the annual standalone financial statements of the Bank for the financial year ending 31 December 2016. Above mentioned proposal determined the payout for single share at PLN 4.53. 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 3 July 2017 and the date of pay out on 20 July 2017.

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 2017 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 2017 and changes in comparison with the end of 2016 are as follows:

PLN '000	State as at		Change	
	31.03.2017	31.12.2016	PLN '000	%
Contingent liabilities granted				
financial	16,397,915	14,722,330	1,675,585	11.4%
Import letters of credit issued	182,348	144,829	37,519	25.9%
Credit lines granted	14,225,322	13,331,401	893,921	6.7%
Subscription of securities granted to other issuers	1,186,300	1,246,100	(59,800)	(4.8%)
Other	803,945	-	803,945	-
guarantees	2,268,757	2,166,835	101,922	4.7%
Guarantees granted	2,228,215	2,131,868	96,347	4.5%
Export letters of credit confirmed	1,767	1,023	744	72.7%
Other	38,775	33,944	4,831	14.2%
	18,666,672	16,889,165	1,777,507	10.5%
Contingent liabilities received				
financial (deposits to receive)	-	-	-	-
guarantees (guarantees received)	17,978,673	18,125,921	(147,248)	(0.8%)
	17,978,673	18,125,921	(147,248)	(0.8%)
Contingent transactions due to FX, securities and derivatives (granted/received liabilities)				
Current*	7,882,574	1,222,536	6,660,038	544.8%
Forward**	176,420,834	151,432,880	24,987,954	16.5%
	184,303,408	152,655,416	31,647,992	20.7%

*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 2017 the structure of the Group has not changed as a result of merger, obtaining or losing control of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

21 Achievement of 2017 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2017.

22 Information about shareholders

As at the day of publishing the Interim Statement for the first quarter of 2017 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 2016, annual consolidated financial report for the year 2016 and publishing this report for the first quarter 2017 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 2017	Number of shares on day of publishing the Annual Consolidated Financial Report for the year 2016	Number of shares on day of publishing the Interim Financial Statement for the third quarter 2016
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 of 2017 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 of 2017 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 first quarter of 2017 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 2017, the Bank was, among others, a party to 16 court proceedings associated directly with derivative transactions that have not been legally terminated: in 10 proceedings the Bank acted as a defendant and in 6 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 the first quarter of 2017 two cases ended legally binding and in favour of the Bank, regarding term financial transactions, where the Bank was defendant or plaintiff.

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 addressees 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 the 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 in 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 4, 2017 the Bank's extraordinary appeal was accepted by the Supreme Court in pre-court protocol for further examination and recognition.

In the first quarter of 2017 the Group has made significant settlement due to court case. As the result of dispute's final settlement, the Bank has made a sentenced payment to plaintiff in the amount of PLN 5 155 thousand.

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

In the first quarter of 2017, 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 2017, the total value of sureties and guarantees given by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's shareholders' equity.

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

The scale and pace of interest rate increases in the United States may have an impact on international financial markets. In the scenario of rapid monetary policy tightening in the U.S., outflows of foreign capital from the emerging markets could be triggered. As a result, the Polish zloty would depreciate and interest rates on both Treasury and corporate debt would go up.

For now, the process of the United Kingdom's exit from the European Union remains the main source of uncertainty that may affect volatility in financial markets as well as economic activity. This risk could be exacerbated if governments of other European countries also start to ponder the decision to leave the European Union. A scenario cannot be ruled out in which consequences of the changes currently taking place in the EU include reducing the pool of EU funds available to Poland and other Central European countries in the next EU financial perspective.

Any intensification of global geopolitical tensions may also threaten the stability of financial markets and hinder the influx of foreign capital into Poland. Conflicts in Syria, Ukraine or Afghanistan flaring up, and also greater tension between the U.S. and North Korea could result in risk aversion and weaken the Polish zloty, negatively affecting both foreign investment in Poland and global economic growth.

Uncertainty concerning changes in domestic economic policy, especially with respect to future changes to the tax system, may contribute to Polish corporations putting off new investment projects. If the period of investment decline becomes prolonged, this could have a negative impact on the potential of the Polish economy, reducing its growth rate over the next few years.

A threat might also lie in potential amendments to the draft act on debt relief for clients who took out foreign currency loans. If such amendments increase the burden on the banking sector to a much greater extent than currently anticipated, this could have a significant impact on the financial markets, depress lending and result in an economic slowdown.

Interim condensed standalone financial statements of the Bank for the first quarter of 2017

Condensed income statement

<i>PLN '000</i>	First quarter accruals	First quarter accruals
	period from 01.01.17 to 31.03.17	period from 01.01.16 to 31.03.16
Interest and similar income	312,017	306,624
Interest expense and similar charges	(58,414)	(60,434)
Net interest income	253,603	246,190
Fee and commission income	141,934	151,436
Fee and commission expense	(17,040)	(15,506)
Net fee and commission income	124,894	135,930
Net income on trading financial instruments and revaluation	72,406	37,868
Net gain on debt investment securities available-for-sale	4,986	6,624
Net gain on equity investment instruments available-for-sale	292	-
Net gain/(loss) on hedge accounting	4,581	4,157
Other operating income	8,377	12,954
Other operating expenses	(11,434)	(7,480)
Net other operating income	(3,057)	5,474
General administrative expenses	(320,577)	(288,123)
Depreciation and amortization	(16,486)	(18,280)
Profit on sale of other assets	2	9
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(29,670)	5,206
Tax on certain financial institutions	(19,593)	(13,137)
Profit before tax	71,381	121,918
Income tax expense	(31,751)	(23,766)
Net profit	39,630	98,152
Weighted average number of ordinary shares (in pcs)	130,659,600	130,659,600
Earnings per share (in PLN)	0.30	0.75
Diluted net earnings per share (in PLN)	0.30	0.75

Condensed statement of comprehensive income

<i>PLN '000</i>	First quarter accruals	First quarter accruals
	period from 01.01.17 to 31.03.17	period from 01.01.16 to 31.03.16
Net profit	39,630	98,152
Other comprehensive income, that might be subsequently reclassified to profit or loss		
Net value of available-for-sale financial assets	31,982	94,595
Total comprehensive income	71,612	192,747

Condensed statement of financial position

	State as at	31.03.2017	31.12.2016
<i>PLN '000</i>			
ASSETS			
Cash and balances with the Central Bank		2,219,871	665,755
Amounts due from banks		798,128	586,973
Financial assets held-for-trading		2,006,478	3,772,162
Hedging derivatives		8,808	12,244
Debt securities available-for-sale		17,319,164	19,072,371
Equity investments		126,452	125,107
Amounts due from customers		19,113,433	18,795,341
Tangible fixed assets		328,343	332,336
Intangible assets		1,372,086	1,349,810
Current income tax receivables		24,749	12,911
Deferred income tax asset		189,085	199,354
Other assets		913,078	165,356
Non-current assets held-for-sale		1,928	1,928
Total assets		44,421,603	45,091,648
LIABILITIES			
Amounts due to banks		2,962,194	2,303,627
Financial liabilities held-for-trading		1,464,132	1,305,614
Hedging derivatives		52,519	39,897
Amounts due to customers		31,764,317	34,031,947
Provisions		21,663	22,068
Other liabilities		1,361,240	664,569
Total liabilities		37,626,065	38,367,722
EQUITY			
Ordinary shares		522,638	522,638
Share premium		2,944,585	2,944,585
Revaluation reserve		(183,079)	(215,061)
Other reserves		2,867,565	2,867,565
Retained earnings		643,829	604,199
Total equity		6,795,538	6,723,926
Total liabilities and equity		44,421,603	45,091,648

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 2017	522,638	2,944,585	(215,061)	2,867,565	604,199	6,723,926
Total comprehensive income, including:	-	-	31,982	-	39,630	71,612
Net profit	-	-	-	-	39,630	39,630
Net valuation of available-for-sale financial assets	-	-	31,982	-	-	31,982
Balance as at 31 March 2017	522,638	2,944,585	(183,079)	2,867,565	643,829	6,795,538

<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 2016	522,638	2,944,585	(163,809)	2,858,825	620,227	6,782,466
Total comprehensive income, including:	-	-	(51,252)	-	604,199	552,947
Net profit	-	-	-	-	604,199	604,199
Net valuation of available-for-sale financial assets	-	-	(51,252)	-	-	(51,252)
Dividends paid	-	-	-	-	(611,487)	(611,487)
Transfer to capital	-	-	-	8,740	(8,740)	-
Balance as at 31 December 2016	522,638	2,944,585	(215,061)	2,867,565	604,199	6,723,926

Condensed summary statement of cash flows

PLN '000	First quarter accruals period from 01.01.17 to 31.03.17	First quarter accruals period from 01.01.16 to 31.03.16
Cash at the beginning of the reporting period	672,754	2,354,108
Cash flows from operating activities	1,701,961	(1,195,808)
Cash flows from investing activities	(37,148)	(10,514)
Cash flows from financing activities	(48,730)	(30,220)
Cash at the end of the reporting period	2,288,837	1,117,566
Increase/(decrease) in net cash	1,616,083	(1,236,542)

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 2016 and interim condensed consolidated financial statement of the Group for the first quarter 2017.

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, as amended) the Bank is obliged to publish its financial results for the 3 month period ended 31 March 2017 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 2017 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 2016.

Other information and explanations concerning these interim condensed consolidated financial statements for the first quarter 2017 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 2017 is presented below.

Bank's financial results

For the first quarter of 2017 the Bank has generated profit before tax of PLN 71 million, meaning decrease by PLN 51 million (or 41,5%) in comparison to analogous period of previous year. In the same time net profit for the first quarter 2017 was PLN 40 million, meaning decrease by PLN 59 million (or 59,6%) in comparison to first quarter 2016.

On the Bank net profit in the first quarter 2017 had increase of financial instruments result (trade financial instruments and revaluation, debt investment securities, equity investment instruments) by total of PLN 33 million (or 74.6%), decrease of interest and fees result by PLN 4 million (or 1.0%), increase in Bank's activity costs and general and administrative expenses and depreciation by total of PLN 31 million (or 10,0%), higher (net) write-off on financial assets and provisions for granted financial liabilities and guarantees by PLN 35 million, decrease of result on other operating income and expenses as well as result on sale of other assets by PLN 8 million, increase in costs of tax on certain financial institutions in the amount of PLN 6 million (or 49.1%) and higher income tax expense by PLN 8 million (or 33.6%).

The interim condensed consolidated financial statements for the first quarter of 2017 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, Control and Tax Department

Date and signature

27.04.2017

Signature of the Vice-President of
Management Board

Date and signature

27.04.2017