citi handlowy

Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the Third Quarter 2012

November 2012

TRANSLATION

SELECTED FINANCIAL DATA	PLN '000 Third quarter accruals period from 01.01.12 to 30.09.12	PLN '000 Third quarter accruals period from 01.01.11 to 30.09.11	EUR '000*** Third quarter accruals period from 01.01.12 to 30.09.12	EUR '000*** Third quarter accruals period from 01.01.11 to 30.09.11
Data related to the condensed consolidated financial statements				
Interest income	1,579,509	1,415,660	376,540	350,298
Fee and commission income	531,506	570,310	126,706	141,120
Profit before tax	910,422	647,522	217,036	160,226
Net profit	725,564	515,333	172,967	127,517
Total income	890,746	484,035	212,345	119,772
Increase of net cash	193,213	(1,267,095)	46,060	(313,536)
Total assets*	36,502,253	42,278,198	8,873,123	9,572,133
Amounts due to banks*	2,576,528	6,011,378	626,313	1,361,026
Amounts due to customers*	20,895,986	24,095,847	5,079,485	5,455,499
Shareholders' equity	6,974,330	6,226,455	1,695,350	1,411,510
Share capital	522,638	522,638	127,045	118,480
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	53.38	47.65	12.98	10.80
Capital adequacy ratio (%)*	17.6	16.4	17.6	16.4
Earnings per ordinary share (PLN / EUR)	5.55	3.94	1.32	0.98
Diluted net earnings per share (PLN / EUR)	5.55	3.94	1.32	0.98
Data related to the condensed unconsolidated financial statements				
Interest income	1,557,340	1,391,972	371,255	344,437
Fee and commission income	494,807	497,292	117,957	123,052
Profit before tax	925,318	636,965	220,587	157,614
Net profit	745,156	508,771	177,638	125,893
Total income	912,536	474,222	217,540	117,344
Increase of net cash	182,820	(1,290,191)	43,583	(319,251)
Total assets*	35,419,775	41,542,014	8,609,990	9,405,455
Amounts due to banks*	2,182,815	5,543,891	530,608	1,255,183
Amounts due to customers*	20,958,379	24,130,225	5,094,652	5,463,282
Shareholders' equity	6,907,502	6,146,152	1,679,105	1,393,306
Share capital	522,638	522,638	127,045	118,480
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	52.87	47.04	12.85	10.66
Capital adequacy ratio (%)*	17.4	15.8	17.4	15.8
Earnings per ordinary share (PLN / EUR)	5.70	3.89	1.36	0.96
Diluted net earnings per share (PLN / EUR)	5.70	3.89	1.36	0.96
Declared or paid dividend per share (PLN / EUR)**	2.76	5.72	0.67	1.30

** Comparable balance data according as at 31 December 2011.*

*** The presented ratios are related to dividend paid in 2012 from the distribution of 2011 profit and dividend paid in 2011 from the distribution of 2010 profit.*

**** The following exchange rates were applied to convert PLN to EUR: for the statement of financial position - NBP average exchange rate as at 30 September 2012 - PLN 4.1138 (as at 31 December 2011: PLN 4.4168; as at 30 September 2011 – PLN 4.4112); for the income statement and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in the first, second and third quarter of 2012 - PLN 4.1948 (in the first, second and third quarter of 2011: PLN 4.0413).*

CONTENTS

Condensed consolidated income statement

PLN '000	Third quarter period from 01.07.12 to 30.09.12	Third quarter accruals period from 01.01.12 to 30.09.12	Third quarter period from 01.07.11 to 30.09.11	Third quarter accruals period from 01.01.11 to 30.09.11
Interest and similar income	531,596	1,579,509	486,754	1,415,660
Interest expense and similar charges	(161,387)	(442,569)	(130,233)	(363,850)
Net interest income	370,209	1,136,940	356,521	1,051,810
Fee and commission income	173,492	531,506	183,576	570,310
Fee and commission expense	(21,697)	(76,365)	(27,694)	(77,116)
Net fee and commission income	151,795	455,141	155,882	493,194
Dividend income	1,004	6,493	31	5,688
Net income on trade financial instruments and revaluation	61,389	279,406	92,183	222,862
Net gain on debt investment securities	97,844	216,912	7,600	18,934
Other operating income	6,360	27,502	6,281	28,692
Other operating expenses	(14,218)	(40,443)	(10,186)	(28,669)
Net other operating income	(7,858)	(12,941)	(3,905)	23
General administrative expenses	(321,246)	(1,065,116)	(343,812)	(1,029,371)
Depreciation of tangible and intangible assets	(15,579)	(49,892)	(15,257)	(44,459)
Profit/(loss) on sale of non-financial assets	6	74	(153)	2,123
Profit/(loss) due to impairment of financial assets and provisions for off-balance sheet liabilities	(22,286)	(57,086)	(16,482)	(73,795)
Operating income	315,278	909,931	232,608	647,009
Share in net profits/(losses) of entities valued at equity method	226	491	197	513
Profit before tax	315,504	910,422	232,805	647,522
Income tax expense	(64,261)	(184,858)	(50,092)	(132,189)
Net profit	251,243	725,564	182,713	515,333
Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Net earnings per share (in PLN)		5.55		3.94
Diluted net earnings per share (in PLN)		5.55		3.94
Including:				
Net profit due to shareholders of the dominant entity		725,564		515,333
Net profit due to non-controlling shareholders		-		-

Condensed consolidated statement of comprehensive income

PLN '000	Third quarter period from 01.07.12 to 30.09.12	Third quarter accruals period from 01.01.12 to 30.09.12	Third quarter period from 01.07.11 to 30.09.11	Third quarter accruals period from 01.01.11 to 30.09.11
Net income	251,243	725,564	182,713	515,333
Other comprehensive income:				
Valuation of financial assets available-for-sale (net)	48,796	167,388	(54,851)	(34,316)
Exchange rate differences	(1,031)	(2,206)	2,874	3,018
Other comprehensive income after tax	47,765	165,182	(51,977)	(31,298)
Total comprehensive income	299,008	890,746	130,736	484,035

Including:				
Comprehensive income due to shareholders of the dominant entity		890,746		484,035
Comprehensive income due to non-controlling shareholders		-		-

TRANSLATION

Condensed consolidated statement of financial position

State as at	30.09.2012	31.12.2011
PLN '000		
ASSETS		
Cash and balances with the Central Bank	937,529	979,616
Amounts due from banks	2,101,907	548,256
Financial assets held-for-trading	5,931,100	5,805,044
Debt securities available-for-sale	8,717,294	17,625,355
Capital investments valued at equity method	15,060	57,945
Other capital investments	24,950	24,912
Amounts due from customers	15,817,142	14,719,473
Tangible fixed assets	418,117	457,929
Intangible assets	1,326,367	1,292,067
Income tax assets	278,029	338,757
Current	3,085	3,436
Deferred	274,944	335,321
Other assets	922,204	403,182
Fixed assets held-for-sale	12,554	25,662
Total assets	36,502,253	42,278,198
LIABILITIES		
Amounts due to banks	2,576,528	6,011,378
Financial liabilities held-for-trading	4,657,620	4,840,447
Amounts due to customers	20,895,986	24,095,847
Liabilities due to debt securities issuance	2,038	25,336
Provisions	41,371	34,914
Income tax liabilities	33,922	72,921
Current	33,922	72,921
Other liabilities	1,320,458	752,874
Total liabilities	29,527,923	35,833,717
EQUITY		
Share capital	522,638	522,638
Share premium	3,011,380	3,009,396
Revaluation reserve	85,094	(82,294)
Other reserves	2,637,246	2,264,082
Retained earnings	717,972	730,659
Total equity	6,974,330	6,444,481
Total liabilities and equity	36,502,253	42,278,198

Condensed consolidated statement of changes in equity

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling shares	Total equity
Balance as at 1 January 2012	522,638	3,009,396	(82,294)	2,264,082	730,659	-	6,444,481
Total comprehensive income	-	-	167,388	(2,206)	725,564	-	890,746
Dividends to paid	-	-	-	-	(360,897)	-	(360,897)
Transfer to capital	-	1,984	-	375,370	(377,354)	-	-
Balance as at 30 September 2012	522,638	3,011,380	85,094	2,637,246	717,972	-	6,974,330

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling shares	Total equity
Balance as at 1 January 2011	522,638	3,031,149	(44,848)	2,248,707	735,289	-	6,492,935
Total comprehensive income	-	-	(34,316)	3,018	515,333	-	484,035
Valuation of capital rewards program, including:	-	-	-	(3,142)	-	-	(3,142)
valuation change	-	-	-	(6,336)	-	-	(6,336)
deferred income tax	-	-	-	3,194	-	-	3,194
Dividends paid	-	-	-	-	(747,373)	-	(747,373)
Transfer to capital	-	(21,753)	-	15,423	6,330	-	-
Balance as at 30 September 2011	522,638	3,009,396	(79,164)	2,264,006	509,579	-	6,226,455

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling shares	Total equity
Balance as at 1 January 2011	522,638	3,031,149	(44,848)	2,248,707	735,289	-	6,492,935
Total comprehensive incomes	-	-	(37,446)	3,094	736,413	-	702,061
Valuation of capital rewards program, including:	-	-	-	(3,142)	-	-	(3,142)
valuation change	-	-	-	(6,336)	-	-	(6,336)
deferred income tax	-	-	-	3,194	-	-	3,194
Dividends paid	-	-	-	-	(747,373)	-	(747,373)
Transfer to capital	-	(21,753)	-	15,423	6,330	-	-
Balance as at 31 December 2011	522,638	3,009,396	(82,294)	2,264,082	730,659	-	6,444,481

Condensed consolidated statement of cash flows

PLN '000	Third quarter accruals period from 01.01.12 to 30.09.12	Third quarter accruals period from 01.01.11 to 30.09.11
Cash at the beginning of the reporting period	1,044,182	3,311,780
Cash flows from operating activities	663,884	(360,385)
Cash flows from investing activities	(6,840)	(48,840)
Cash flows from financing activities	(463,831)	(857,870)
Cash at the end of the reporting period	1,237,395	2,044,685
Increase / (decrease) in net cash	193,213	(1,267,095)

Supplementary notes to the condensed consolidated financial statements

1 General information about the Bank and the Capital Group

Bank Handlowy w Warszawie S.A. ("the dominant entity", "the Bank", "Citi Handlowy") has its registered office in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was founded on the strength of a Notarial Deed of 13 April 1870 and is registered in the Register of Entrepreneurs in the National Court Register kept by the District Court for Warsaw, XII Commercial Department in Warsaw, under KRS number 0000001538.

The Bank was given REGON number: 000013037 and tax identification number NIP: 526-030-02-91.

The Bank and the Group were set up for unspecified period of time.

Issued capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with nominal value of PLN 4.00 per share. The shares are quoted on the Warsaw Stock Exchange.

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

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

This interim consolidated report presents financial data of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent and its subordinated entities.

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.09.2012	31.12.2011
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	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
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A. w likwidacji	Poznań	100.00	100.00

In the third quarter of 2012 there were no changes in the structure of Group's entities.

2 Declaration of conformity

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting adopted by European Union and with other applicable regulations. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the financial year ended 31 December 2011.

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 2009, No. 33, item 259 with further changes). The Bank is obliged to publish its financial results for the 9 month period ended 30 September 2012 which is deemed to be the current interim financial reporting period.

3 Principles accepted at the composition of the report

The condensed interim consolidated financial statements of the Group for the third quarter 2012 have been prepared in accordance with accounting principles adopted and summarized in the annual consolidated financial statements of the Group for the period ended 31 December 2011.

The preparation of condensed interim consolidated financial statements of the Group with accordance to IFRS requires form the Management to make certain estimates and adopting the related assumptions that affect the amounts reported in the financial statements. This financial statement is based on the same estimation rules, which were used in the annual financial statements of the Group for the period ended 31 December 2011, including the reasons and sources of uncertainty as at the balance sheet date.

The most significant estimates made for the 9 month period ended 30 September 2012, concern:
- Value loss of financial assets,
- Valuation to the fair value of derivatives,
- Employee benefits.

The condensed interim consolidated financial statements of the Group have been prepared for the period from 1 January 2012 to 30 September 2012. Comparable financial data are presented for the period from 1 January 2011 to 30 September 2011 and for the statement of financial position as at 31 December 2011.

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

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

Monthly macroeconomic figures indicate a further slowdown in the economic growth in Q3 2012, from 2.4% year-on-year in Q2 2012 and 3.5% year-on-year in Q1 2012, and compared to 4.3% year-on-year in 2011. The average growth in industrial production from July to September 2012 was 0.2% year-on-year, whereas the value of the Purchasing Managers Index (PMI) dropped to the lowest level since the end of 2009, pointing to a progressive decrease in both domestic and export orders. The export growth rate in July - August 2012 rose temporarily to approximately 8.7% year-on-year compared to 0.5% year-on-year in Q2 2012, while the import growth rate increased to approximately 0.7% year-on-year compared to -3.2% year-on-year in Q2 2012. Further deterioration of the economic situation and reduced activity in the eurozone have exerted a negative influence on the prospects of Polish exports and production figures. A slowdown in industrial production has been accompanied by gradual worsening of the conditions in the labor market. Although the unemployment rate in June dropped to 12.4% from 12.9% in April 2012 and remained at a similar level in July and August, unemployment figures have been among the highest since 2007. The unemployment rate is expected to stay at an elevated level in the following quarters. At the same time, the employment growth rate in the enterprise sector slowed down to 0% year-on-year in Q3 2012. Also, the average retail sales growth rate slowed down to 6.4% year-on-year in July-August 2012 (in nominal terms) compared to 6.5% in Q2 2012 and 12.9% year-on-year in Q1 2012. The above was due to deterioration of consumer sentiment, driven by poorer conditions in the labor market, a slowdown in the household loan growth rate as well as a gradual decrease in the savings rate.

In Q3 2012, inflation decreased slightly down to 3.9% year-on-year compared to 4.0% year-on-year in Q2 2012 and 4.1% year-on-year in Q1 2012. The most rapid rises have been recorded for fuel and energy carrier prices. Following the increase in interest rates observed in May and after several months of their stabilization, increasingly more noticeable signs of the economic slowdown forced the Polish Monetary Policy Council to change slightly the informal approach to the monetary policy. Furthermore, the overtones of the announcements of the Monetary Policy Council as well as statements made by its members implied a reduction in interest rates once the economic growth slowdown is confirmed and the relatively good inflation prospects continue.

Following a slight depreciation of the Polish zloty in Q2 2012, Q3 brought another, progressive appreciation of the Polish currency, which is attributable to a gradual improvement of the risk appetite resulting from implementation of the Outright Monetary Transactions (OMT) program by the European Central Bank, FED’s introduction of the third asset purchase program (QE3) as well as less negative overtones of the statements made by the American Central Bank. Relatively high interest rates and an elevated level of foreign investors demand for Polish treasury bonds have also had a positive effect on the Polish currency. At the end of September 2012, the EUR/PLN exchange rate was 4.11 compared to 4.26 at the end of Q2 2012, whereas the USD/PLN exchange rate was 3.22 compared to 3.39 in the aforementioned period.

Despite fluctuations in the risk appetite, in Q3 2012 gradual appreciation was observed with respect to Polish treasury bonds, whose yields decreased substantially. This was due to higher market expectations concerning the Polish Monetary Council’s interest rate cutting, strong demand for bonds which continued to be created by foreign investors as well as a gradual decrease in the credit risk, which has been reflected in a drop in CDS rates. Satisfaction of most of the state budget’s loan needs (approximately 100% at the end of September), accompanied by the forecast limited supply of treasury bonds in the second half of the year, also had a positive effect on the debt market in Q3 2012. The yield on 2-year bonds dropped in Q3 2012 by 55 bps, down to 4.04% at the end of September, compared to 4.59% at the end of June, whereas that of 10-year bonds decreased by approximately 45 bps, down to 4.70% at the end of September. The 3M WIBOR rate dropped at the same time down to 4.93% from 5.13% at the end of June 2012.

Deterioration of the global economic environment has led to implementation of a number of measures by central banks. The Outright Monetary Transactions program announced by the ECB and the bond-buying plan introduced by the Central Bank of Japan, followed by the next round of quantitative easing by FED, have had a significant effect on reduction of the risk aversion and determined the economic situation both in the global and the Polish equity markets.

Out of all WSE (Warsaw Stock Exchange) indices, WIG-PL (encompassing all shares of Polish companies) recorded a rise of 7.3%, whereas the value of the widest WIG index increased by 7.2%. A lower return achieved by WIG20 (+4.2%) results from a different calculation methodology (in contrast to WIG, it is only a price index and does not include any dividend income). The results of average and low capitalization company indices were slightly worse than those of blue chips (+2.3% quarter-on-quarter and +3.5% quarter-on-quarter, respectively).

As regards sector sub-indices, WIG-Surowce (Raw Materials) and WIG-Paliwa (Fuels) need to be recognized for their increase of 19.2% and 12.8%, respectively, in Q3 2012. Double-digit growth dynamics were also recorded by the food and beverage industry, whose figures rose by 10.3% over the past three months. On the other hand, IT and media companies were the only ones to record a drop in value on a quarter-on-quarter basis (by -6.3% and -6.1%, respectively). The highest rate of return on a year-on-year basis was achieved by the chemical sector (+57.1% year-on-year), whereas the most significant decrease was experienced by construction and media companies (-30.6% year-on-year and -19.7% year-on-year, respectively) as well as property developers (-15.5% year-on-year).

Q3 2012 brought a further stock market deterioration. Over the past three months, only two new entities, whose total issue amounted to less than PLN 39 million, entered the main floor of the Warsaw Stock Exchange.

At the end of September 2012, WSE traded in the shares of 435 companies with the total capitalization of PLN 693 billion (a 3% rise compared to the end of Q2 2012). The share of Polish companies in the total WSE capitalization was 70% (compared to 71% at the end of June 2012).

Equity market indices as of 30 September 2012

Index	30.09.2012	30.06.2012	Change (%) quarter-on-quarter	30.09.2011	Change (%) year-on-year
WIG	43,739.81	40,810.88	7.2%	38,268.75	14.3%
WIG-PL	43,697.72	40,721.39	7.3%	37,885.62	15.3%
WIG-div	1,033.24	979.48	5.5%	896.37	15.3%
WIG20	2,371.42	2,275.30	4.2%	2,188.73	8.3%
mWIG40	2,353.20	2,300.09	2.3%	2,169.48	8.5%
sWIG80	9,850.84	9,520.17	3.5%	8,806.20	11.9%
Sector sub-indices					
WIG-Banki (Banks)	6,279.65	6,021.14	4.3%	5,455.82	15.1%
WIG-Budownictwo (Construction)	1,661.81	1,602.22	3.7%	2,393.10	(30.6%)
WIG-Chemia (Chemicals)	9,218.86	8,491.31	8.6%	5,866.50	57.1%
WIG-Deweloperzy (Property Developers)	1,265.05	1,236.74	2.3%	1,496.54	(15.5%)
WIG-Energia (Power)	3,832.02	3,612.05	6.1%	3,646.17	5.1%
WIG-Informatyka (IT)	1,065.91	1,137.40	(6.3%)	964.30	10.5%
WIG-Media	2,276.93	2,424.63	(6.1%)	2,837.01	(19.7%)
WIG-Paliwa (Fuels)	3,094.24	2,744.11	12.8%	2,675.31	15.7%
WIG-Spożywczy (Food and Beverage)	3,624.45	3,284.71	10.3%	3,501.07	3.5%
WIG-Surowce (Raw Materials)	5,086.10	4,266.19	19.2%	3,809.14	33.5%
WIG-Telekomunikacja (Telecommunications)	1,499.66	1,429.83	4.9%	1,396.59	7.4%

Source: WSE, Dom Maklerski Banku Handlowego S.A.

Values of shares and bonds as well as volumes of derivative instruments traded on WSE in Q3 2012

	Q3 2012	Q2 2012	Change (%) quarter-on-quarter	Q3 2011	Change (%) year-on-year
Shares (PLN million)*	104,979	86,646	21.2%	143,045	(26.6%)
Bonds (PLN million)	328	199	64.8%	478	(31.4%)
Forward contracts ('000)	5,079	6,050	(16.0%)	8,755	(42.0%)
Options ('000)	388	310	25.2%	531	(26.9%)

** figures excluding calls*
Source: WSE, Dom Maklerski Banku Handlowego S.A.

In Q3 2012, the value of WSE-traded shares rose by 21.2% compared to the previous quarter. However, investor activity in this market segment was considerably lower on a year-on-year basis (a 26.6% decrease).

Similar trends were observed in the debt instrument market. In Q3 2012, the value of WSE-traded bonds (PLN 328 million) was substantially higher than in the preceding three months (an increase by 65.1%), but lower by more than 31% on a year-on-year basis.

Investor activity in the forward contract market, measured by the trading volume, was less than 5.1 million contracts in Q3 2012, which denotes a drop by 16% quarter-on-quarter and by 42% year-on-year.

The option trading volume increased in Q3 2012 by approximately one-fourth compared to the second quarter, that is to the level of 388,000 contracts. Nonetheless, it was considerably lower than the volume recorded in Q3 2011 (531,000 contracts).

5 Situation in the banking sector

Figures published by the National Bank of Poland indicate an increase in the volume of corporate loans by 8% year-on-year in 3Q 2012. At the end of September 2012, their balance was almost PLN

255 billion. It is a relatively significant slowdown in the annual dynamics growth continuing at a double digit level since September 2011. This should be treated as a negative sign for the sector, resulting from the expected economic slowdown. Considering the tenor structure of the corporate loan portfolio, the fastest growth was recorded with respect to loans granted for a tenor of more than five years (10% year-on-year), while those with a tenor of up to one year increased at the rate of 4% year-on-year. As regards the type structure analysis of the portfolio, the most substantial growth was observed in investment loans (10% year-on-year). Overdraft facilities rose by 8% year-on-year, real estate loans by 6% year-on-year and the volume of other credit facilities and loans decreased by 4% year-on-year. In annual terms, the corporate loan portfolio quality, measured by the ratio of non-performing loans, has significantly deteriorated (NPL ratio increase by 0.6 p.p. from 10.7% in September 2011 to 11.3% at the end of September 2012). The reason for this is a difficult situation in the large enterprise segment (mainly in the construction sector). The increase in the NPL ratio for this portfolio reached 2 p.p. (to the level of 9.7%). For SMEs the ratio dropped to 12.3% at the end of September from 12.6% in the previous year.

At the end of September 2012, the balance of household loans increased to almost PLN 524 billion (1% year-on-year, or PLN 6 billion) due to mortgage loans (2% year-on-year, or + PLN 7 billion). The increase in the volume of mortgage loans was mainly driven by loans originated in the Polish currency, whose balance rose by 18% year-on-year (PLN 22 billion), while the volume of foreign currency denominated loans dropped at the end of September 2012 by 8% (PLN 15 billion) year-on-year, down to the level of than PLN 179 billion. Appreciation of the Polish currency compared to the Swiss franc (6% year-on-year) and Euro (7% year-on-year), as well as significant limitations imposed by banks with respect to granting of foreign currency loans have had a crucial importance for the value of the above portfolio. The consumer loan portfolio has been showing negative dynamics in annual terms for 19 months (the effect of regulatory restrictions and an increased scope of the so-called shadow banking). At the end of September 2012, the portfolio value amounted to slightly above PLN 130 billion (PLN 6 billion less than in the corresponding period of the preceding year – a drop by 4% year-on-year). The quality of household loans suffered. The NPL ratio for household loans rose by 0.2 p.p. year-on-year to the level of 7.5%, with the ratio for mortgage loans growing by 0.4 p.p. year-on-year and the ratio for consumer loans decreasing by 0.3 p.p. year-on-year (to the level of 17.9%).

Corporate deposits decreased by 3% on year-on-year basis, with a balance of PLN 178 billion at the end of 3Q 2012. A negative annual growth in corporate deposits was reported at the end of July 2001 for the last time. This is another signal, after declining credit dynamics, indicating a significant economic slowdown. The rise was driven for current deposits (2% year-on-year), while term deposits showed negative dynamics at the level of 7% year-on-year (- PLN 7 billion).

An increase was recorded in household deposits. Its balance rose by PLN 45 billion (+10% year-on-year), up to the level of PLN 488 billion. Term deposits rose faster (an increase by 19% year-on-year, or PLN 42 billion), whereas current deposits recorded an increase of only 1% year-on-year (PLN 3 billion). Hence, the structure of household deposits changed to the benefit of term deposits, which at the end of 3Q 2012 accounted for 53% of all deposits, compared to 49% a year before.

The net profit of the banking sector for 3Q 2012 decreased by 5% (PLN 220 million) year-on-year and amounted to nearly PLN 4.0 billion. The decrease in net profit is attributed to a significant increase in the costs of the banking sector (+7% year-on-year) and an increase in net impairment losses (related to the deterioration of the quality of the portfolio of mortgage loans and loans to large enterprises). Revenue achieved by the banking sector in the analyzed period increased by 2% year-on-year to the level of PLN 14.8 billion, mainly due to nearly 3% increase in net interest income (+PLN 225 million year-on-year). Net fee income rose by PLN 74 million year-on-year (+2%), whereas other revenues did not change significantly (decrease by PLN 3 million year-on-year).

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

1. Statement of financial position

At the end of the third quarter of 2012, total assets were PLN 36.5 billion versus PLN 42.3 billion reported at the end of 2011, down by PLN 5.8 billion (i.e. 13.7%). The decline was impacted by the following factors:

- decline in balance for debt securities available-for-sale by PLN 8.9 billion, i.e. 50.5%, reflecting a partial portfolio sales due to the bond yields drop in the market;

- increase of amounts due from banks by PLN 1.5 billion, i.e. 283.4%;

  increase in net receivables from customers by PLN 1.1 billion, i.e. 7.5%, mainly attributable to an increase of receivables from non-financial sector by o PLN 0.9 billion, i.e. 6.8% driven by an increase in loans for corporate customers (up by PLN 0.8 billion, i.e. 9.3%) as well as loans for individual customers (increase by o PLN 0.1 billion, i.e. 2.5%). At the same time there was an increase in receivables from financial sector (by PLN 0.2 billion, i.e. 16.9%) reflecting an increase in receivables subject to repurchased agreement.

Amounts due from customers **(net)**

PLN '000	30.09.2012	31.12.2011	Change	
			PLN '000	%
Amounts due from financial sector entities	1,179,888	1,009,315	170,573	16.9%
Amounts due from nonfinancial sector entities, including:	14,637,254	13,710,158	927,096	6.8%
Corporate clients*	9,397,840	8,598,887	798,953	9.3%
Individual clients, including:	5,239,414	5,111,271	128,143	2.5%
credit cards	2,161,200	2,250,751	(89,551)	(4.0%)
cash loans	2,135,070	2,189,440	(54,370)	(2.5%)
mortgage loans	862,073	583,674	278,399	47.7%
Total net receivables from customers	15,817,142	14,719,473	1,097,669	7.5%

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

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

PLN '000	30.09.2012	31.12.2011	Change	
			PLN '000	%
Not at risk of impairment, including:	15,521,976	14,356,929	1,165,047	8.1%
non-financial sector entities	14,341,963	13,347,525	994,438	7.5%
corporate clients*	9,183,590	8,331,622	851,968	10.2%
individual clients	5,158,373	5,015,903	142,470	2.8%
With recognized impairment, including:	1,379,181	1,481,786	(102,605)	(6.9%)
non-financial sector entities	1,360,184	1,462,789	(102,605)	(7.0%)
corporate clients*	560,033	616,513	(56,480)	(9.2%)
individual clients	800,151	846,276	(46,125)	(5.5%)
Dues related to matured derivative transactions	115,137	116,547	(1,410)	(1.2%)
Total gross receivables from customers, including:	17,016,294	15,955,262	1,061,032	6.7%
non-financial sector entities	15,702,147	14,810,314	891,833	6.0%
corporate clients*	9,743,623	8,948,135	795,488	8.9%
individual clients	5,958,524	5,862,179	96,345	1.6%
Impairment, including:	(1,199,152)	(1,235,789)	36,637	(3.0%)
Dues related to matured derivative transactions	(95,002)	(96,063)	1,061	(1.1%)
Total net receivables from customers	15,817,142	14,719,473	1,097,669	7.5%
Impairment coverage ratio with recognized impairment	80.1%	76.9%		
corporate clients*	65.3%	60.0%		
individual clients	89.9%	88.7%		

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

Amounts due from customers, gross, divided into performing vs. non-performing

PLN '000	30.09.2012	31.12.2011	Change	
			PLN '000	%
Performing loans, including:	15,581,559	14,425,608	1,155,951	8.0%
non-financial sector entities	14,401,546	13,416,204	985,342	7.3%
corporate clients*	9,183,590	8,331,622	851,968	10.2%
individual clients	5,217,956	5,084,582	133,374	2.6%
Non-performing loans, including:	1,319,598	1,413,107	(93,509)	(6.6%)
non-financial sector entities	1,300,601	1,394,110	(93,509)	(6.7%)
corporate clients*	560,033	616,513	(56,480)	(9.2%)
individual clients	740,568	777,597	(37,029)	(4.8%)
Dues related to matured derivative transactions	115,137	116,547	(1,410)	(1.2%)
Total gross receivables from customers	17,016,294	15,955,262	1,061,032	6.7%
Non-performing loans ratio (NPL)	7.8%	8.9%		

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

On the liabilities side, liabilities towards banks decreased by PLN 3.4 billion, i.e. 57.1% compared to the end of 2011 and liabilities towards clients dropped by PLN 3.2 billion, i.e. 13.3%. The decline in liabilities towards clients was primarily driven by a reduction in corporate clients deposits, mainly term deposits (decline by PLN 2.7 billion, i.e. 36.3%) and, to a smaller extent, deposits held on current accounts (down by PLN 0.9 billion, i.e. 11.4%). On the other hand, retail term deposits rose by PLN 0.1 billion, mainly as a result of an increase in current accounts balance. Financial sector deposits also posted a slight increase (by PLN 0.3 billion, i.e. 15.3%), mainly attributable to an increase in balance of term deposits.

Amounts due to customers

PLN '000	30.09.2012	31.12.2011	Change	
			PLN '000	%
Customers deposits				
Current accounts, including:	12,438,215	13,228,771	(790,556)	(6.0%)
financial sector entities	288,647	267,645	21,002	7.9%
non- financial sector entities, including:	12,149,568	12,961,126	(811,558)	(6.3%)
Corporate clients*, including:	7,287,544	8,224,387	(936,843)	(11.4%)
Budgetary units	1,056,167	2,607,506	(1,551,339)	(59.5%)
Individual clients	4,862,024	4,736,739	125,285	2.6%
Time deposits,including	8,251,055	10,672,927	(2,421,872)	(22.7%)
financial sector entities	2,280,623	1,963,538	317,085	16.2%
non-financial sector entities, including:	5,970,432	8,709,389	(2,738,957)	(31.5%)
Corporate clients*, including:	4,752,266	7,463,779	(2,711,513)	(36.3%)
Budgetary units	623,736	762,883	(139,147)	(18.2%)
Individual customers	1,218,166	1,245,610	(27,444)	(2.2%)
Accrued interest	23,347	20,307	3,040	15.0%
Total customers deposits	20,712,617	23,922,005	(3,209,388)	(13.4%)
Other amounts due to customers	183,369	173,842	9,527	5.5%
Total amounts due to customers	20,895,986	24,095,847	(3,199,861)	(13.3%)

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

2. Income statement

In the third quarter of 2012 the Group delivered a consolidated net profit of PLN 251.2 million, which represents an increase of PLN 68.5 million (i.e. 37.5%) as compared to the third quarter of 2011. The revenues of the Group rose by PLN 66.1 million (i.e. 10.9%) to PLN 674.4 million.

The main determinants of the Group's combined operating result in the third quarter of 2012 as compared to the third quarter of 2011 were as follows:

- net interest income of PLN 370.2 million as compared to PLN 356.5 million in the third quarter of 2011 – up by PLN 13.7 million, i.e. 3.8%, stemming primarily from higher by PLN 15.9 million (i.e. 5.3%) interest income from customers receivables which were up by PLN 2.0 billion, i.e. 14.9% as compared to the third quarter of 2011. Additionally, there was an increase in interest income from debt securities available-for-sale (up by PLN 12.1 million, i.e. 7.9%) and from debt securities held-for-trading (up by PLN 11.8 million, i.e. 90.8%) as a result of an increase in an average portfolio balance. At the same time, the level of interest expenses in the third quarter of 2012 was higher than in the same period of the previous year, particularly in the area of liabilities towards financial sector entities and banks (increase by PLN 21.1 million, i.e. 98.2%, and PLN 10.2 million, i.e. 77.5%, respectively). A slight increase in the level of interest costs was also reported in the case of non-financial sector (up by PLN 1.8 million, i.e. 2.0%);

Interest income

PLN '000	01.07 - 30.09.2012	01.07 - 30.09.2011	Change	
			PLN '000	%
Interest and similar income from:				
Balances with Central Bank	9,731	9,011	720	8.0%
Amounts due from banks	16,289	11,924	4,365	36.6%
Amounts due from customers, including:	316,911	301,049	15,862	5.3%
financial sector entities	6,584	7,387	(803)	(10.9%)
non-financial sector, including:	310,327	293,662	16,665	5.7%
credit cards	90,890	95,457	(4,567)	(4.8%)
Debt securities available-for-sale	163,781	151,728	12,053	7.9%
Debt securities held-for-trading	24,884	13,042	11,842	90.8%
Total	531,596	486,754	44,842	9.2%
Interest expense and similar charges on:				
Operations with Central Bank	(1)	-	(1)	.
Amounts due to banks	(23,298)	(13,123)	(10,175)	77.5%
Amounts due to financial sector entities	(42,519)	(21,456)	(21,063)	98.2%
Amounts due to non-financial sector entities	(94,203)	(92,383)	(1,820)	2.0%
Loans and advances received	(1,122)	(3,015)	1,893	(62.8%)
Debt securities issuance	(244)	(256)	12	(4.7%)
Total	(161,387)	(130,233)	(31,154)	23.9%
Net interest income	370,209	356,521	13,688	3.8%

- net fee and commission income of PLN 151.8 million as compared to PLN 155.9 million in the third quarter of 2011 – down by PLN 4.1 million, i.e. 2.6%, primarily due to lower commission income related to brokerage activities (among others due to a reduction in equity turnover volumes in the third quarter of 2012 – drop by 33% as compared to the same period of the previous year). A decline was also reported in the commission income from custody services, payment orders and sale of insurance and investment products. On the other hand, the net fee income from payment and credit cards improved, driven among others by higher card transaction volumes, as compared to the third quarter of 2011;

Net fee and commission income

PLN '000	01.07 - 30.09.2012	01.07 - 30.09.2011	Change	
			PLN '000	%
Fee and commission income				
Insurance and investment products	29,857	32,334	(2,477)	(7.7%)
Payment and credit cards	64,591	59,861	4,730	7.9%
Payment orders	26,267	28,958	(2,691)	(9.3%)
Custody services	21,626	24,931	(3,305)	(13.3%)
Cash loans	1,717	2,278	(561)	(24.6%)
Brokerage operations	9,975	19,043	(9,068)	(47.6%)
Account cash management services	6,965	7,239	(274)	(3.8%)
Off-balance-sheet guarantee liabilities	3,685	3,867	(182)	(4.7%)
Off-balance-sheet financial liabilities	1,463	1,699	(236)	(13.9%)
Other	7,346	3,366	3,980	118.2%
Total	173,492	183,576	(10,084)	(5.5%)
Fee and commission expense				
Payment and credit cards	(8,822)	(14,022)	5,200	(37.1%)
Brokerage operations	(4,799)	(6,015)	1,216	(20.2%)
Fees paid to the National Depository for Securities (KDPW)	(4,255)	(4,496)	241	(5.4%)
Brokerage fees	(924)	(898)	(26)	2.9%
Other	(2,897)	(2,263)	(634)	28.0%
Total	(21,697)	(27,694)	5,997	(21.7%)
Net fee and commission income				
Insurance and investment products	29,857	32,334	(2,477)	(7.7%)
Payment and credit cards	55,769	45,839	9,930	21.7%
Payment orders	26,267	28,958	(2,691)	(9.3%)
Custody services	21,626	24,931	(3,305)	(13.3%)
Cash loans	1,717	2,278	(561)	(24.6%)
Brokerage operations	5,176	13,028	(7,852)	(60.3%)
Account cash management services	6,965	7,239	(274)	(3.8%)
Off-balance-sheet guarantee liabilities	3,685	3,867	(182)	(4.7%)
Off-balance-sheet financial liabilities	1,463	1,699	(236)	(13.9%)
Fees paid to the National Depository for Securities (KDPW)	(4,255)	(4,496)	241	(5.4%)
Brokerage fees	(924)	(898)	(26)	2.9%
Other	4,449	1,103	3,346	303.4%
Total	151,795	155,882	(4,087)	(2.6%)

- net income on trade financial instruments and revaluation of PLN 61.4 million as compared to PLN 92.2 million in the third quarter of 2011, i.e. down by PLN 30.8 million, mainly as a result of lower result on the Bank's proprietary management;
- net income on debt investment securities of PLN 97.8 million as compared to PLN 7.6 million in the third quarter of 2011 – i.e. up by PLN 90.2 million due to the realized gains in the declining bond yields environment in the third quarter of 2012;
- operating expenses and overheads including depreciation expenses of PLN 336.8 million as compared to PLN 359.1 million in the corresponding period of the previous year – down by PLN 22.2 million (i.e. 6.2%) due to a reduction in staff expenses by PLN 14.7 million, i.e. 8.6% (partly reflecting employment restructuring), and administrative costs by PLN 7.9 million, i.e. 4.5%, mainly as a result of lower costs of external services related to product distribution and other external services' costs with a simultaneous increase in technological infrastructure expenses in Consumer Banking;

General administrative expenses and depreciation expense

PLN '000	01.07 - 30.09.2012	01.07 - 30.09.2011	Change PLN '000	Change %
Staff expenses	(155,988)	(170,684)	14,696	(8.6%)
Remuneration costs	(131,811)	(142,249)	10,438	(7.3%)
Bonuses and rewards	(24,177)	(28,435)	4,258	(15.0%)
Administrative expenses	(165,258)	(173,128)	7,870	(4.5%)
Telecommunication fees and hardware purchase costs	(51,180)	(38,492)	(12,688)	33.0%
Advisory, audit, consulting and other external services' costs	(18,950)	(25,050)	6,100	(24.4%)
Building maintenance and rent costs	(25,026)	(26,651)	1,625	(6.1%)
Marketing costs	(10,402)	(11,971)	1,569	(13.1%)
Cash management services, KIR service and other transactional costs	(11,269)	(13,222)	1,953	(14.8%)
Costs of external services concerning distribution of banking products	(12,930)	(18,135)	5,205	(28.7%)
Postal services, office supplies and printmaking costs	(7,503)	(6,961)	(542)	7.8%
Training and education costs	(677)	(2,278)	1,601	(70.3%)
Banking supervision costs	(2,149)	273	(2,422)	(887.2%)
Other costs	(25,172)	(30,641)	5,469	(17.8%)
Depreciation/amortization of tangible and intangible assets	(15,579)	(15,257)	(322)	2.1%
Total	(336,825)	(359,069)	22,244	(6.2%)

- net impairment losses of PLN 22.3 million as compared to PLN 16.5 million in the third quarter of 2011 (up by PLN 5.8 million, i.e. 35.2%). The increased net impairment losses were reported in Corporate Banking, particularly in SME segment as a result of higher risk of borrower's failure to fulfill their obligations under loan agreements on time, mainly in the individually assessed portfolio. At the same time, retail credit losses fell significantly, mainly due to credit policy changes introduced over the past years and their positive impact on consumer loans' and credit cards' portfolios.

Result on impairment write-off of financial assets and provisions for off-balance sheet liabilities

PLN '000	01.07 – 30.09.2012	01.07 – 30.09.2011	Change PLN '000	Change %
Net impairment write-downs of financial assets				
Impairment write-downs				
Amounts due from banks	(269)	(317)	48	(15.1%)
Amounts due from customers	(76,144)	(81,851)	5,707	(7.0%)
Dues related to matured transactions on derivative instruments	(157)	(70)	(87)	124.3%
Other	(3,263)	(3,257)	(6)	0.2%
	(79,833)	(85,495)	5,662	(6.6%)
Reversals of impairment write-downs				
Amounts due from banks	270	447	(177)	(39.6%)
Amounts due from customers	58,491	69,643	(11,152)	(16.0%)
Dues related to matured transactions on derivative instruments	354	161	193	119.9%
	59,115	70,251	(11,136)	(15.9%)
	(20,718)	(15,244)	(5,474)	35.9%

PLN '000	01.07 – 30.09.2012	01.07 – 30.09.2011	Change	
			PLN '000	%
Net (charges to)/releases of provisions for off-balance-sheet commitments				
Charges to provisions for off-balance-sheet commitments	(6,897)	(9,851)	2,954	(30.0%)
Releases of provisions for off-balance-sheet commitments	5,329	8,613	(3,284)	(38.1%)
	(1,568)	(1,238)	(330)	26.7%
Net impairment losses	(22,286)	(16,482)	(5,804)	35.2%

3. Ratios

In the third quarter of 2012 basic financial ratios were as follows:

Financial ratios	Q3 2012	Q3 2011
ROE *	15.6%	12.4%
ROA**	2.3%	1.6%
Cost/Income	50%	59%
Loans to non-financial sector/Deposits from non-financial sector	81%	72%
Loans to non-financial sector/Total assets	40%	34%
Net interest income/Revenue	55%	59%
Net fee and commission income/Revenue	23%	26%

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

Group employment*

In full time job equivalents (FTE)	01.01 – 30.09.2012	01.01 – 30.09.2011	Change	
			FTEs	%
Average employment in the third quarter	5,140	5,920	(780)	(13.2)
Average employment in the period	5,354	5,839	(485)	(8.3)
Employment at the end of quarter	4,995	5,819	(824)	(14.2)

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

In the third quarter 2012 the Group noted a significant drop in the employment in comparison to the corresponding period of 2011. It was a result of group layoffs started in the second quarter 2012 due to employment restructuring in connection with optimization of branch network aiming at increasing of the effectiveness in retail business and other areas of the Bank.

As at 30 September 2012, capital adequacy ratio of the Group amounted to 17.6% and was 1.2 percentage point higher comparing to the end of 2011, mainly because of the increase of the own funds of the Group due to retention of 50% of the Bank's net profit for 2011. The total capital requirement grew by 4.6% due to increased portfolio of assets and risk-weighted off-balance sheet liabilities (up by 11.3%).

Capital adequacy ratio*

PLN '000	30.09.2012	31.12.2011
I Own funds in total, including:	4,906,024	4,354,853
Reduction of basic and supplementary funds		
investments in financial entities	15,060	57,945
intangible assets, including:	1,326,367	1,292,066
goodwill	1,245,976	1,245,976

Capital adequacy ratio*

PLN '000		30.09.2012	31.12.2011
II	Risk-weighted assets and off-balance-sheet commitments (bank portfolio)	20,075,006	18,042,413
III	Total capital requirements, including:	2,228,679	2,130,748
	credit risk capital requirements (II*8%)	1,606,000	1,443,393
	counterparty risk capital requirements	100,800	133,148
	capital requirements for excess of exposures' concentration limit and large exposures' limit	62,498	87,064
	total market risk capital requirements	72,224	83,167
	operational risk capital requirements	366,893	360,531
	other capital requirements	20,263	23,445
	Capital adequacy ratio (I/III*12,5)	17.6%	16.4%

**Capital Adequacy Ratio was calculated according to the rules stated in Resolution No 76/2010 of the Commission for Banking Supervision dated 10 March 2010 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 2. item 11 as amended).*

7 Segmental reporting

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

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

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

Corporate Banking

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

Consumer Banking

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

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

Consolidated income statement of the Group by business segment

For the period	01.01. – 30.09.2012			01.01. – 30.09.2011		
PLN '000	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
Net interest income	551,498	585,442	1,136,940	483,661	568,149	1,051,810
Internal interest income, including:	(5,822)	5,822	-	7,799	(7,799)	-
Internal income	-	5,822	5,822	7,799	-	7,799
Internal expenses	(5,822)	-	(5,822)	-	(7,799)	(7,799)
Net commission income	189,947	265,194	455,141	239,128	254,066	493,194
Dividend income	2,779	3,714	6,493	1,314	4,374	5,688
Net income on trade financial instruments and revaluation	251,552	27,854	279,406	200,393	22,469	222,862
Net gain on debt investment	216,912	-	216,912	18,934	-	18,934
Net other operating income	7,780	(20,721)	(12,941)	17,854	(17,831)	23
General administrative expenses	(466,032)	(599,084)	(1,065,116)	(442,477)	(586,894)	(1,029,371)
Depreciation of fixed assets and intangible assets	(23,260)	(26,632)	(49,892)	(20,258)	(24,201)	(44,459)
Profit / (loss) on sale of nonfinancial assets	49	25	74	93	2,030	2,123
Result on write offs due to impairment of financial assets and provisions for off-balance sheet liabilities	(24,340)	(32,746)	(57,086)	12,819	(86,614)	(73,795)
Operating income	706,885	203,046	909,931	511,461	135,548	647,009
Share in net profits (losses) of entities valued at equity method	491	-	491	513	-	513
Profit before tax	707,376	203,046	910,422	511,974	135,548	647,522
Income tax expense			(184,858)			(132,189)
Net profit			725,564			515,333

State as at	30.09.2012			31.12.2011		
PLN '000	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
Assets, including:	30,819,745	5,682,508	36,502,253	36,666,378	5,611,820	42,278,198
Assets valued at equity method	15,060	-	15,060	57,945	-	57,945
Fixed assets held-for-sale	-	12,554	12,554	15,760	9,902	25,662
Liabilities, including:	27,681,542	8,820,711	36,502,253	34,556,302	7,721,896	42,278,198
Obligations	22,608,410	6,919,513	29,527,923	29,911,099	5,922,618	35,833,717

8 Activities of the Group

1. <u>Corporate Banking</u>

1.1. Summary of segment results

PLN '000	Q3 2012	Q3 2011	Change	
			PLN '000	%
Net interest income	175,147	162,293	12,854	7.9%
Net fee and commission income	58,846	72,109	(13,263)	(18.4%)

PLN '000	Q3 2012	Q3 2011	Change	
			PLN '000	%
Dividend income	1,004	31	973	3138.7%
Net income on trade financial instruments and revaluation	52,097	83,146	(31,049)	(37.3%)
Net gain on debt investment securities	97,844	7,600	90,244	1187.4%
Net other operating income	557	3,160	(2,603)	(82.4%)
Total income	385,495	328,339	57,156	17.4%
General administrative expenses and depreciation	(148,895)	(155,900)	7,005	(4.5%)
Profit/(loss) on sales of tangible fixed assets	2	(22)	24	(109.1%)
Net impairment losses	(15,770)	11,637	(27,407)	(235.5%)
Share in net profits (losses) of entities valued at equity method	226	197	29	14.7%
Profit before tax	221,058	184,251	36,807	20.0%
Cost / Income	39%	47%		

The key highlights that impacted the gross profit of Corporate Banking for the third quarter of 2012 as compared to the corresponding period of the previous year were as follows:

- increase in net interest income reflecting higher income from debt securities (due higher average balance of the securities portfolio year-on-year) and from client activities driven by higher income from loans to corporate clients, which grew by 18.8% as compared to the third quarter of 2011. At the same time, in the third quarter of 2012 interest expenses increased, mainly in the area of financial institutions;
- decline in net fee and commission income, mainly in the area of brokerage activity – due to a reduction in equity turnover volumes by 33% as compared to the same period of the previous year. In the third quarter of 2012 net fee and commission income from custody services and transaction banking services also went down;
- decline in net income from trade financial instruments and revaluation mainly due to lower result on the Bank's proprietary management;
- significant increase in net gain on debt investment securities - realized gains on sales of securities in favorable conditions on the domestic bond market;
- decline in general administrative expenses resulting mainly from lower staff expenses affected by, among others, employment restructuring and change in accruals due to overdue leave, as well as lower marketing costs;
- growth of net impairment losses (PLN -15.8 million in the third quarter of 2012 as compared to PLN +11.6 million in the corresponding period of the previous year), primarily in the area of SME, due to increased risk of borrowers' failure to fulfill obligations under loan agreements, mainly in the individually asserted portfolio.

1.2. Corporate and Investment Bank and the Capital Markets

Corporate and Commercial Bank

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

At the end of the third quarter of 2012, the number of corporate clients (including customers of the Corporate Bank, global clients and corporate clients) was slightly below 8,000, which means a small decrease compared to the previous quarter, when the number of clients exceeded 8,000. Under the Corporate Bank (small and medium companies, large enterprises and public sector) the Bank served almost 6,000 clients at the end of the third quarter of 2012 (which is the stable level compared to nearly 6,000 clients served at the end of the second quarter of 2012).

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

The table below presents balances of assets and liabilities in the particular segments in the management view.

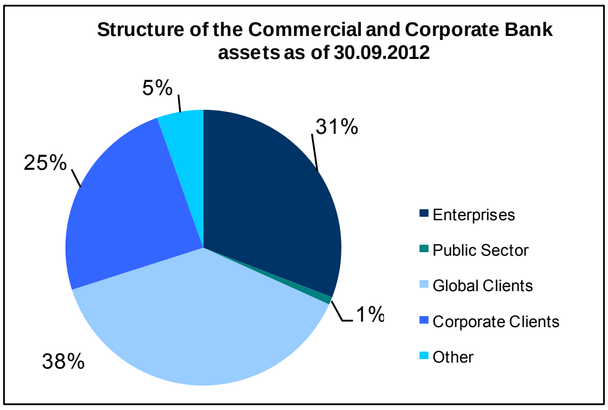
Assets

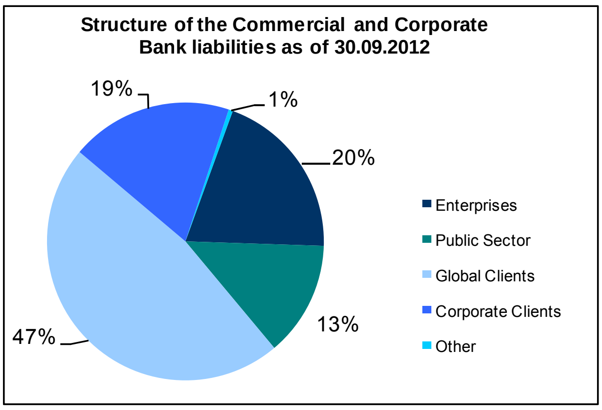
PLN million	30.09.2012	30.06.2012	30.09.2011	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	'000	%	'000	%
Enterprises*, including:	3,030	2,967	2,697	63	2%	333	12%
SMEs	1,511	1,510	1,431	0	0%	79	6%
MMEs	1,519	1,457	1,266	63	4%	253	20%
Public Sector	89	129	101	(40)	(31%)	(11)	(11%)
Global Clients	3,763	3,470	3,562	293	8%	201	6%
Corporate Clients	2,404	1,882	1,551	522	28%	854	55%
Other**	536	601	680	(65)	(11%)	(144)	(21%)
Total Corporate and Commercial Bank	9,822	9,049	8,591	773	9%	1,231	14%

Liabilities

PLN million	30.09.2012	30.06.2012	30.09.2011	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	'000	%	'000	%
Enterprises*, including:	2,796	2,982	2,760	(187)	(6%)	36	1%
SMEs	2,130	2,231	2,094	(102)	(5%)	36	2%
MMEs	666	751	666	(85)	(11%)	(0)	(0%)
Public Sector	1,879	2,096	1,690	(217)	(10%)	190	11%
Global Clients	6,621	5,924	6,213	697	12%	408	7%
Corporate Clients	2,653	3,107	3,459	(454)	(15%)	(806)	(23%)
Other**	67	72	39	(5)	(7%)	28	70%
Total Corporate and Commercial Bank	14,016	14,183	14,161	(166)	(1%)	(144)	(1%)

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SME) and over PLN 150 million (large enterprises).*
*** 'Other' include, among others, clients subject to restructuring and clients of Handlowy Leasing Sp. z o.o., who are not clients of the Bank.*





Key transactions and achievements in the Corporate and Commercial Bank in the third quarter of 2012:

- In September 2012 the Bank organized a subordinated bond issue and served the role of the issue dealer for one of the major banks in Poland, with the issue value of PLN 1.6 billion;
- In cooperation with UBS, the Bank participated in a transaction involving the sale of shares of Bank Gospodarki Żywnościowej S.A. to Rabobank, serving the role of an adviser of the Ministry of the State Treasury. The transaction value was approximately USD 800 million;
- In Q3 2012, the Bank carried out numerous financing transactions with its Commercial Bank clients, including, in particular: a trade credit for a metal structure manufacturer (PLN 40 million), an overdraft facility for an electrical household appliances wholesale sector client (PLN 30 million), an overdraft facility for a cable and conductor manufacturer (PLN 20 million), supplier financing for a meat product company (PLN 16 million), a trade credit for a high voltage secondary circuit box manufacturer (EUR 2.5 million), investment loan commitment for a commercial material printing company (PLN 9.2 million) and a multi-purpose facility for a special-purpose vehicle distributor (PLN 9 million).

Activity and Business Achievements of the Treasury Division

- In Q3 2012, despite unfavorable economic conditions and a slowdown in commercial exchange in Poland, the Bank continued to maintain a significant level of foreign currency transactions with its corporate clients. The volume of electronic transactions carried out through the CitiFX Pulse platform remained unchanged compared to Q2 2012. The CitiFX Pulse electronic transaction platform retained a strong client interest, while over 70% of foreign exchange transactions were initiated through the online platform;
- The trading volume of transactions in treasury bonds, entered into with financial institutions in Q3 2012, increased by 65% year-on-year;
- The Bank continues to play the leading role in organizing bond and certificate of deposit issues for banks. According to the “Rating&Rynek” report produced by Fitch Ratings at the end of August 2012, the Bank’s share in the aforementioned market was 33%;
- In Q3 2012, the Bank continued to hold the leading position in the 2013 Treasury Securities Dealer competition organized by the Polish Ministry of Finance.

Transactional Banking

The Bank is Poland’s leading institution offering transaction banking services. Together with a range of traditional services, the Bank offers up-to-date liquidity management services, mass payment solutions and accounts receivable management products.

Transaction banking includes the following products and services:

- Funds management products: deposits and current accounts, liquidity management products, Micropayments, electronic banking;
- Card products;
- Payments and accounts receivable: Direct Debit, Speedcollect;
- Cash products;
- EU consultancy;
- Trade financing products.

Services delivered to public sector clients constitute one of the strategic development areas of the Bank’s transactional banking offering. In Q3 2012, the Bank was again the winner in a tender organized by the authorities of the capital city of Warsaw and aimed at selection of an institution responsible for provision of comprehensive bank account services to the city. Selection of the Bank for the second time should be particularly emphasized considering the significant complexity of the local government structure in Warsaw. It also proves the highly advanced level of the Bank’s offering of transactional banking services for the public sector. Public sector experience brought further successes – in Q3 2012 the Bank won tenders concerning provision of services to the local government authorities of Elbląg and Olsztyn.

Other Transactional Banking business achievements in Q3 2012:

- Electronic banking:
    - The total number of transactions processed in electronic form through the CitiDirect and CitiDirect Banking Evolution systems was approximately 6 million, which denotes a 1% increase year-on-year;
    - The number of corporate clients authorized to use electronic banking systems was 11,500 at the end of Q3 2012, which denotes an increase of 11% year-on-year;
    - The number of active electronic banking system users increased by more than 6% in the analyzed period;
    - The share of bank statements delivered to clients only in electronic form was maintained at the level of 90%.
    - "CitiDirect Banking Evolution" is a new electronic banking system, dedicated to small and medium-sized enterprises. The system has been made available to clients in April 2012. The number of active users of the new system reached the level of almost 1,000 in several months (figures as of the end of Q3 2012).
- Speedcollect, Direct Debit

The Bank's clients include businesses with a broad base of customers making frequent payments. In order to ensure effective management of their settlements with counterparties, the Bank continues to enhance the offering of its receivables management products. In Q3 2012, a new technology platform was launched by the Bank to be used for SpeedCollect and Direct Debit transaction management purposes. Owing to its three-layer system architecture, system scalability and its capability of parallel and independent information processing for each client, the new platform guarantees rapid completion of even the most complex projects.

- Cross-border funds transfers

In Q3 2012, the volume of cross-border funds transfers increased by almost 13% year-on-year.

- Micro-deposits
    - The number of clients using the Micro-deposits product rose by 15% compared to Q3 2011. The aforementioned increase in the number of clients translated into a rise in the number of active micro-accounts by almost 60% over the same period;
    - The Micro-deposits offering was expanded in Q3 2012 to include a new functionality, which facilitates the reporting process related to client balances available at the Bank to a considerable degree. Although the aforementioned solution has been developed mainly for public sector clients, it may also be used by other sector entities.
- Card products
    - In Q3 2012, an 11% increase was recorded in the value of cash transactions in the business card segment, whereas the value of non-cash transactions remained at a virtually unchanged level compared to the corresponding period of the preceding year. In the analyzed period, the number of non-cash transactions rose by 3%, whereas the number of cash transactions by 4%;
    - As regards debit cards, the Bank recorded a 2% rise in the number of non-cash and cash transactions compared to Q3 2011.
- EU advisory services
    - In Q3 2012, the Bank focused on promotional activities concerning the technology credit. The aforementioned initiative allowed the Bank to provide its clients with information concerning the mechanism of the above instrument in the context of the latest changes resulting from the Polish Innovation Support Act.

- The Bank's involvement in projects aimed at promoting EU funds among entrepreneurs translated into new EU advisory service agreements.

- Trade finance products
  - Trade receivables financing with full, partial or non-assumption of the debtor's insolvency risk plays a major role among the Bank's trade finance products. The aforementioned group also includes factoring facilities. The available offering continues to attract the clients' interest, which allows the Bank to gradually increase the value of its assets and its market share. In Q3 2012, the value of the Bank's trade finance assets increased by 15% year-on-year;
  - The Bank carried out trade finance transactions in the oil and gas industry in the receivables discounting formula for the total amount of almost PLN 0.5 billion and continued expanding a supplier financing program for the largest chain store in Poland. The aforementioned initiatives contributed to reinforcement of the Bank's leading position in supplier financing in the commercial industry;
  - As regards the value of bank guarantees issued, in Q3 2012 the Bank recorded a 15% rise year-on-year.

Fiduciary and Custody Services

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

As of 30 September 2012, the Bank maintained almost 14,000 securities accounts.

At the same time, it served the role of a custodian bank for five open-end pension funds: Amplico OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE and Nordea OFE, for four optional pension funds: MetLife Amplico DFE, Nordea DFE, ING DFE and DFE Pekao, and for two employee pension funds – Pracowniczy Fundusz Emerytalny PZU "Słoneczna Jesień" and Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A. Additionally, custody services were provided to investment funds managed by the following Fund Management Companies: BZ WBK TFI S.A., PKO TFI S.A., Pioneer Pekao TFI S.A., Legg Mason TFI S.A. and Aviva Investors Poland TFI S.A.

Brokerage Activities

The Group's brokerage activities in the capital market are carried out through Dom Maklerski Banku Handlowego S.A. ("DMBH"), where the Bank is the sole shareholder.

In Q3 2012, DMBH acted as a broker in almost 11% of secondary-market share trading (figures excluding calls), assuming the leading position in terms of its share in trading. Transactions made through DMBH in the WSE equity market amounted to PLN 11.5 billion, which denotes a 33.1% decrease year-on-year, but a 25% rise compared to Q2 2012.

The number of investment accounts maintained by DMBH at the end of Q3 2012 was almost 9,500, which denotes a 3.8% rise year-on-year.

In Q3 2012, DMBH's activity as the WSE market maker did not undergo any major changes. As of the end of September 2012, DMBH acted as the market maker for 39 company shares and for WIG20 forward contracts, assuming a leading position among brokerage houses which serve this role at the Warsaw Stock Exchange.

DMBH's financial performance is affected mainly by (both Polish and foreign) institutional client activity, which, in turn, depends on the inflow of funds and conditions in equity markets. The brokerage house is exposed mainly to the risk of further changes to the 2nd pillar of the pension system, aimed at reducing the level of contributions transferred to open-end pension funds. On the other hand, expected interest rate cuts, which may boost the attractiveness of more risky instruments at the expense of deposits and contribute to a shift of a portion of savings to equity funds, may exert a positive influence on the Bank's brokerage activities.

Summary Income Statement and Balance Sheet*

Company's Name	Headquarter	Participation interest of the Bank in equity %	Balance sheet as at 30.09.2012 PLN '000	Equity as at 30.09.2012 PLN '000	Net financial result for 01.01-30.09.2012 PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	818,967	94,048	7,010

Unaudited data

Leasing Activities

The Group's leasing activities are carried out through Handlowy Leasing Sp. z o.o. ("Handlowy Leasing", "HL"), where the Bank is the sole shareholder.

The value of assets leased in Q3 2012 was PLN 48.9 million, which denotes a 2% rise year-on-year, compared to PLN 47.9 million in Q3 2011.

The structure of the aforementioned assets included: vehicles (65%) and machinery and equipment (35%). A 17% increase was recorded with respect to Vehicles, whereas Machinery and Equipment saw a decrease of 17%.

Net asset value of leases

PLN milion	Q3 2012	Q3 2011	Change	
			PLN million	%
Value of leases contracted in the period:	49.0	47.9	1.1	2%
for vehicles	31.7	27.0	4.7	17%
for machinery and equipment	17.3	20.9	(3.6)	(17%)

Summary Income Statement and Balance Sheet*

Company's Name	Headquarters	Participation interest of the Bank in equity %	Balance sheet as at 30.09.2012 PLN '000	Equity as at 30.09.2012 PLN '000	Net financial result for 01.01-30.09.2012 PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.0	643,175	155,573	5,209

Unaudited data

2. Consumer Banking

2.1. Summary of the segmental results

PLN '000	Q3 2012	Q3 2011	Change	
			PLN '000	%
Net interest income	195,062	194,228	834	0.4%
Net fee and commission income	92,949	83,773	9,176	11.0%
Net income on trade financial instruments and revaluation	9,292	9,037	255	2.8%
Net other operating income	(8,415)	(7,065)	(1,350)	19.1%
Total income	288,888	279,973	8,915	3.2%
General administrative expenses and depreciation	(187,930)	(203,169)	15,239	(7.5%)
Profit/(loss) on sale of tangible fixed assets	4	(131)	135	(103.1%)
Net impairment losses	(6,516)	(28,119)	21,603	(76.8%)
Profit before tax	94,446	48,554	45,892	94.5%
Cost/Income	65%	73%		

The key highlights that impacted the gross profit of Consumer Bank in the third quarter of 2012 as compared to the corresponding period of 2011 were as follows:

- stable net interest income, driven by higher mortgage interest income and lower interest income from credit cards as well as by higher interest expenses due to increased deposit balances;
- increase in net fee and commission income, mainly in the area of credit cards, among others due to increased value of credit card transactions. Additionally, fee expenses on credit cards include PLN 4.4 million of positive one-off related to settlements with card organizations;
- operating expenses decreased as a result of branch network optimization and a year-on-year drop in expenses on direct sales channels. At the same time technological infrastructure costs in the Bank increased as compared to the corresponding period of the previous year;
- net impairment losses declined, reflecting changes in the credit policy made over the past years and their positive impact on the quality of consumer loans and credit cards portfolios.

2.2. Selected business data

	Q3 2012	Q2 2012	Q3 2011	Change QoQ	Change YoY
Number of individual customers	869,103	949,822	982,830	(80,719)	(113,727)
Number of current accounts, including:	630,403	667,390	645,735	(36,987)	(15,332)
number of operating accounts*	181,211	183,642	177,712	(2,431)	3,499
Number of operating accounts newly acquired during the reported period*	19,084	19,880	28,567	(796)	(9,483)
Number of saving accounts	233,287	220,738	221,810	12,549	11,477
Number of credit cards, including:	806,921	819,701	864,842	(12,780)	(57,921)
co-branded cards	467,659	471,434	487,954	(3,775)	(20,295)
Number of active credit cards*	729,150	738,517	772,850	(9,367)	(43,700)
Number of debit cards, including:	425,354	462,444	473,513	(37,090)	(48,159)
PayPass cards	362,541	377,824	303,074	(15,283)	59,467

** The comparative data for Q3 2011 differ from the data presented in the Q3 2011 Consolidated Report due to a change in the calculation methodology.*

The drop in number of individual customers is driven by the Bank's decision on the closure of non-active customers' accounts and is not related to the optimization of the Banks's branch network.

2.3. Business achievements

Credit Cards

The number of credit cards at the end of Q3 2012 was 806,900.

Based on figures available at the end of September 2012, the Bank maintained 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 18.5% compared to 18.1% in the corresponding period of the preceding year. According to the data available at the end of the second quarter of 2012 the Bank's share in the value of credit cards transactions was 22.9% and during the year it increased from 22.6% at the end of 2Q 2011.

The structure of credit cards acquisition in 3Q 2012 was dominated by multipartner Citibank Credit Card World with the share in the acquisition of 51% and Citibank Credit Card Wizz Air's share in the acquisition of 29%.

In order to increase the number of payments made with credit cards, the Bank has undertaken a number of promotional activities and held competitions with rewards such as the Samsung Galaxy S III mobile phone. In July 2012, a new Internet website was launched for the Citibank Credit Card discount program (www.citirabaty.pl), which presents the latest discounts offered to the clients of Citi Handlowy.

Bank Accounts

- **Current Accounts**

In Q3 2012, the Bank maintained 630,000 current accounts (including 443,000 local currency accounts and 187,000 foreign currency accounts), which denotes a drop by 2.4% year-on-year (at the end of September 2011, the number of such accounts maintained by the Bank was 645,700). The aforementioned decrease was driven by the decision to close 70,000 inactive client accounts and it was not caused by the clients' termination of their bank account agreements as a result of the branch network optimization project. The total account balance was PLN 2.4 billion, compared to PLN 2.1 billion at the end of Q3 2011. In order to increase the balance of personal accounts, the Bank continued implementation of its customer relationship policy and undertook initiatives aimed at encouraging active personal account use.

- **Savings Accounts**

The number of savings accounts at the end of Q3 2012 was 194,600. The total savings account balance was PLN 2.4 billion, compared to 221,000 savings accounts with the total balance of PLN 2.5 billion in the corresponding period of the preceding year. As in the case of current accounts, the aforementioned decrease in the savings account number resulted from the Bank's decision to close inactive accounts.

- **Offering Changes**

In August 2012, the Bank modified its deposit product fees and charges. No changes were introduced to the Citigold and CitiForward segments, which remain the primary focus of the Bank. Although slight increases were introduced to certain fees charged on clients with income of less than PLN 5,000, the offering itself (provided that transactions are carried out individually by the client) is still very attractive.

Credit Products

- **Cash Loan**

In Q3 2012, the Bank granted cash loans of PLN 208 million, which represents the same sales level as in Q2 2012 and denotes a 28% increase year-on-year. In August, the Bank introduced an interesting cash advance product with a low interest rate of 7.77% (limited amount, tenor and target client group), supported by a major advertising campaign. The aforementioned initiative was aimed at encouraging clients to visit our branches and obtain details of the Bank's comprehensive product offering.

- **Mortgage Products**

At the end of Q3 2012, the mortgage loan portfolio balance was PLN 862 million, which represents a 67% rise year-on-year and an increase of 14% compared to Q2 2012.

In Q3 2012,high acquisition of mortgage loans was continued. As sales activities were carried out both through the Bank's internal channels (Mortgage Centers) and through its Partners (to a considerable extent), the Bank's mortgage product offering stood out in the competitive market of financial services. At the end of Q3 2012, the Bank cooperated with 1,900 Partners offering the Citi Handlowy's mortgage products.

Insurance and Investment Products

- At the end of Q3 2012, the total value of funds managed in the form of investment and savings products (including, certificates of deposit, dual-currency deposits, investment deposits as well as unit-linked life insurance products, general endowment and child endowment insurance products) purchased by consumers through the Bank recorded a 6.1% decrease year-on-year, which was mainly due to a drop in the value of assets resulting from redemptions and payments related to expiring products;

  The value of the aforementioned funds was PLN 4.5 billion at the end of Q3 2012, compared to PLN 4.8 billion at the end of Q3 2011;

- In the analyzed period, increases were recorded in the following investment product groups: structured products in the form of investment life insurance (+88%), unit-linked, regular premium life insurance (+35.3%);
- The Bank's investment product offering was enhanced in Q3 2012 to include 3 new, currency risk hedged, foreign funds in the Polish currency. The aforementioned funds increased the range of solutions offered in the debt and equity asset classes;
- As regards structured products, in Q3 2012 the Bank carried out the offer of 12 structure bond subscriptions as well as 3 investment life insurance subscriptions;
- In July 2012, a new, promotional offer combining investment insurance products (unit-linked life insurance as well as structured life and endowment insurance) and term deposits, was introduced by the Bank;
- In August 2012, the Bank's offering was enhanced with a new life insurance product ("*Twoja Ochrona*"), providing coverage against death and permanent disability. The aforementioned product is offered to credit card holders.

2.4. Development of distribution channels

Mobile Banking

In Q3 2012, the Bank continued implementation of its client acquisition strategy as well as initiatives aimed at building awareness of the services and benefits related to telephone fund management.

The number of mobile banking users has been growing gradually. At the end of Q3 2012, over 97,000 clients used the Citi Mobile banking services, out of which almost 13,000 logged on to Citi Mobile for the first time during the analyzed quarter.

Internet Banking

In Q3 2012, the Bank followed its Internet website development strategy with the objective to improve its quality and accessibility as well as increasing the number of clients actively using the service. The number of active service users in Q3 2012 was 391,800, and it rose by 12% year-on-year.

In September 2012, the Bank launched a new version of the service dedicated to its wealthy, Citigold clients. In the new version, changes were introduced to the layout of information, colors and icons, so that it suits the needs and requirements of wealthy clients. At the same time, the service complies with the requirements of Citi's global strategy concerning visual identification of Internet websites.

In Q3 2012, the Bank continued to accomplish its strategy objectives to increase the share of Internet credit card acquisition in the total retail sales through its presence in theme websites, partners' and group purchase websites and through electronic communications to their users. Consequently, Internet acquisition results achieved in Q3 2012 remained at the same level as in Q2 2012, while an increase of more than 85% was recorded by the Bank in the share of Internet product acquisition in total sales on a year-on-year basis.

Direct and Indirect Customer Acquisition

- **Citibank at Work**

Citibank at Work is responsible for delivering sales services to corporate clients' employees at their workplace, offering convenience, time saving opportunity and special terms of purchase of the Bank's products and services.

The Bank's strategy focused on increasing the wealthy client portfolio has already been effective. In the analyzed period, Citibank at Work acquired a record number of accounts in the CitiForward and Citigold profitable segments (a 160% and a 180% increase quarter-on-quarter in CitiForward and Citigold, respectively). Over 61% of clients opening a bank account decided to purchase another credit product from the Bank, compared to 56% in Q3 2011.

The insurance sales level also rose on a year-on-year basis. In Q3 2012, the average monthly product insurance penetration was 29%, compared to 26% in Q3 2011.

- **Direct Sales**

At the end of Q3 2012, the direct sales network comprised 22 points of sale, which included stands in shopping centers (16), Wizz Air World MasterCard stands at airports (5) as well as a Citibank LOT credit card stand at the Okęcie Airport in Warsaw. Additionally, the Citibank MasterCard World credit card was sold on selected days in 8 points of sale operated by the Bank's Partner (a movie theater chain).

The Bank continues to implement projects aimed at development of its points of sale at the major Polish airports. As planned, in mid-July 2012 a stand was launched at the newly opened airport in Modlin, whereas the existing stand located at the Poznań Ławica Airport was replaced with a spacious and clearly visible point of sale, which contributed to a 135% increase in sales compared to Q2 2012.

In order to broaden the scope of its acquisition activities, during the summer the Bank's credit card was also sold at Stena Line ferry terminals, on its ferries and at the 4th Women's Congress in Warsaw.

3. Branch network

At the end of Q3 2012, the Bank's branch network comprised 88 branches of the L type (former corporate branches, CitiGold Wealth Management and the Investment Center) and of the M type (former multi-functional branches).

In accordance with the strategic objectives defined for 2012-2015 and a decision of the Bank's Management Board concerning optimization of the branch network, the following activities were undertaken by the Bank in Q3 2012:

- operations of 8 selected branches in Kielce, Koszalin, Piła, Płock, Słupsk, Świdnica, Wałbrzych and Tarnów were discontinued;
- the scope of deposit services provided to consumers in the M-type branch located in Płock at ul. Tumska 14 (currently L-type) was extended.

Considering implementation of the Bank's effectiveness strategy and in order to ensure efficient client services, new cash points were opened in cooperation with Billbird and Brinks. These are located in cities where the Bank's only branch has been closed. Such efforts allowed the Bank to create a low-cost alternative for the basic Consumer and Corporate Client service. Ultimately, clients will be able to carry out basic financial and non-financial transactions through the cash points. Cash deposits and debt repayment to the Bank have been the first services offered in cooperation with the aforementioned companies.

Number of branches and other points of sale / client contact points

	Q3 2012	Q2 2012	Q3 2011	Change QoQ	Change YoY
Number of branches:	88	96	149	(8)	(61)
L-type	35	38	42	(3)	(7)
M-type	53	58	89	(5)	(36)
S-type	-	-	18	-	(18)
Other points of sale / client contact points:					
Points operated by financial intermediaries (Open Finance, Expander and other)	340	340	126	-	214
Airports	6	4	5	2	1
Shopping centers	16	16	19	-	(3)
Cash points (Billbird and Brinks)	20	12	-	8	20
Own ATMs	114	120	133	(6)	(19)
"Euronet" ATMs and ADMs with the Citi Handlowy logo	1,015*	1,015	833	-	182

** Figures as of 30 August 2012. As the agreement with Euronet had expired, the Bank's logo was removed from Euronet ATMs and ADMs in September 2012.*

9 Rating

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

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

At the end of the third quarter of 2012, Moody's rated the Bank as follows:

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

At the end of the third quarter of 2012, Fitch rated the Bank as follows:

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

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

The Standard & Poor's rating (developed on the basis of publicly available information) remained unchanged in the third quarter of 2012 at "BBBpi" (rating confirmed on 13 December 2011).

10 Financial instruments disclosure

The increase of fair value of financial instruments classified as held-for-trading at 30 September 2012 in comparison to the end of 2011 was connected with expected by the Bank changes in economic environment.

The decrease of financial instruments portfolio size classified as available-for-sale (AFS) was influenced by the sale of securities on which in the first three quarters the Bank has realized profit.

Despite persistently high volatility of market factors – including credits spreads - and expectations in decreasing interest rates, their impact on change in fair value of Bank's loans and deposits portfolios can be considered negligible - in relation to the size of the respective portfolios - due to their short term nature and relatively stable quality. The size change of the portfolios mainly resulted from the current activity of the Group customers.

In the 9 month period of 2012 the Group has not made any changes in principles of financial instruments' classification (presented in the consolidated statement of financial position at fair value) to the separate categories of fair value establishing method used (level I, level II, level III).

In the second period of 2012 the Group has transferred assets available for sale (AFS) from that category valuated basing on significant non-market parameters (level III) to the category valuated basing on significant market parameters (level II). The movement in the category refers to commercial debt securities and results from the valuation model change included as at 31 December 2011 in the credit risk area, currently calculated basing on market data. The value of assets available for sale, which were transferred amounted PLN 936,570 thousand as at 30 September 2012.

In the 9 month period of 2012 the Group has not made any changes in financial assets classification that may result from asset's purpose or usage change.

11 Impairment and provisions

PLN '000	As at 1 January 2012	Increases: Write down creation	Increases: Other*	Decreases: Write down release	Decreases: Movement of receivables to write downs	Decreases: Sale fo receivables/other assets	Decreases: Other*	As at 30 September 2012
Impairment of financial assets								
Amounts due from banks	63	674	-	(468)	-	-	(4)	265
Amounts due from customers	1,235,789	229,352	1,603	(169,178)	(94,371)	-	(4,043)	1,199,152
	1,235,852	230,026	1,603	(169,646)	(94,371)	-	(4,047)	1,199,417
Off balance sheet liabilities reserve	11,474	16,033	-	(14,678)	-	-	-	12,829
Total financial assets and off balance sheet liabilities	1,247,326	246,059	1,603	(184,324)	(94,371)	-	(4,047)	1,212,246
Other assets impairment								
Capital investment	21,575	-	-	-	-	-	-	21,575
Tangible assets available for sale	2,615	1,014	-	-	-	(2,547)		1,082
Other assets	419	5,969	-	(672)	(17)	-	-	5,699
Total other assets	24,609	6,983	-	(672)	(17)	(2,547)	-	28,356
Total impairment	1,271,935	253,042	1,603	(184,996)	(94,388)	(2,547)	(4,047)	1,240,602
Other provisions								
Contentious issues	23,440	6,286	-	(6,220)	-	-	(12,813)	10,693
Restructuring	-	42,208	-	-	-	-	(24,359)	17,849
Total othr provisions	23,440	48,494	-	(6,220)	-	-	(37,172)	28,542

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

PLN '000	As ar 1 January 2011	Increases: Write down creation	Increases: Other*	Decreases: Write down release	Decreases: Movement of receivables to write downs	Decreases: Sale fo receivables/other assets	Decreases: Other*	As at 31 December 2011
Impairment of financial assets								
Amounts due from banks	493	1,276	13	(1,719)	-	-	-	63
Amounts due from customers	1,358,921	365,719	8,748	(306,224)	(160,792)	(30,583)	-	1,235,789
	1,359,414	366,995	8,761	(307,943)	(160,792)	(30,583)	-	1,235,852
Off balance sheet liabilities reserve	10,538	39,766	-	(38,830)	-	-	-	11,474
Total financial assets and off balance sheet liabilities	1,369,952	406,761	8,761	(346,773)	(160,792)	(30,583)	-	1,247,326
Other assets impairment								
Capital investment	42,515	-	-	-	-	(20,940)	-	21,575
Tangible assets available for sale	68	2,547	-	-	-	-	-	2,615
Other assets	1,355	1,942	-	(2,356)	(522)	-	-	419
Total other assets	43,938	4,489	-	(2,356)	(522)	(20,940)	-	24,609
Total impairment	1,413,890	411,250	8,761	(349,129)	(161,314)	(51,523)	-	1,271,935
Other provisions								
Contentious issues	21,702	2,652	-	(894)	-	-	(20)	23,440

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

In the period 1 January - 30 September 2012 and in 2011 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 Provisions and assets due to differed income tax

PLN '000	30.09.2012	31.12.2011
Assets due to differed income tax	898,109	921,989
Provisions due to differed income tax	(623,165)	(586,668)
End of period balance	274,944	335,321

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

13 Purchase and sale transactions of tangible assets

In the period 1 January - 30 September 2012 the value of purchased by the Group components of "fixed assets" equaled PLN 27,593 thousand (in 2011: PLN 55,917 thousand); the value of sold components equals PLN 2,903 thousand (in 2011: PLN 7,757 thousand).

As at 30 September 2012 the Group does not has significant contract liabilities due to purchase of fixed assets.

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

Between 1 January and 30 September 2012 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

Within the Debt Security of the Bank Issue Program, Bank effects the issue of certificates of deposit ('BPW'), total value of which as at 30 September 2012 was PLN 2,038 thousand (31 December 2011: PLN 25,336 thousand).

PLN '000

Type of debt securities issued as at 30 September 2012	Nominal value	Issuance date	Maturity date
Certificate of deposit	2,035	04.05.2011	30.10.2012

The movement in liabilities due to certificate of deposit issuance (nominal value)

PLN '000	01.01 – 30.09.2012	01.01 – 31.12.2011
As at 1 January	25,325	11,529
Increases		
issuance	-	62,607
Decreases		
buyout	22,825	48,811
repurchace before maturity	465	-
Balance as at the end of the period	2,035	25,325

In the third quarter of 2012 the Bank has paid back BPW with nominal value of 20,959 thousand for which the maturity date was 1 August 2012, 31 August 2012, 3 September 2012 and 26 September 2012 and bought back BPW before maturity in total amount of PLN 40 thousand for which the maturity date was 30 October 2012.

Provided that BPW are held until maturity, at redemption the issuer is obliged to pay the principal, guaranteed interest and premium interest.

17 Paid or declared dividends

Dividends paid

In accordance with General Meeting of Shareholders' Resolution No 30/2012 of 20 June 2012, 2011 profit has been distributed, the resolution of dividend pay-out was adopted as well as dividend date and pay-out date were determined. From 2011 net profit PLN 360,620,496.00 was assigned for the pay-out, which means the pay-out for a single share was PLN 2.76. The number of shares subjected to dividend equals 130,659,600.

The date of determination the right to dividend was set on 5 July 2012 and the dividend was paid out on 31 August 2012.

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

As at 30 September 2012 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.

On 11 October 2012 the Bank's shares of Bank Rozwoju Cukrownictwa S.A. w likwidacji representing 100% share in Capital and 100% in votes on the Shareholders General Meeting were excluded from the Group's consolidated statement of financial position. The exclusion were made due to the cancellation of the company from KRS (National Court Registry) as a succession of the liquidation proceeding that has ended. The transfer of the liquidation amount, that is PLN 42,4 million, representing the value of shares in the Group's consolidated statement of financial position was made in June 2012.

19 Changes in off-balance-sheet commitments

The detailed specification of off-balance-sheet commitments as at 30 September 2012 and changes in comparison with the end of 2011 are as follows:

PLN '000	State as at		Change	
	30.09.2012	31.12.2011	PLN '000	%
Contingent liabilities granted				
financial	12,528,818	11,358,661	1,170,157	10.3
Import letters of credit issued	106,553	132,833	(26,280)	(19.8)
Credit lines granted	10,836,171	10,674,678	161,493	1.5
Subscription of securities granted to other issuers	1,122,550	551,150	571,400	103.7
Reverse repo transactions with future currency date	463,544	-	463,544	-
guarantees	1,843,526	2,090,982	(247,456)	(11.8)
Guarantees granted	1,824,297	2,054,187	(229,890)	(11.2)
Export letters of credit confirmed	5,103	5,385	(282)	(5.2)
Other	14,126	31,410	(17,284)	(55.0)
	14,372,344	13,449,643	922,701	6.9
Contingent liabilities received				
financial (deposits to receive)	361,131	6,000	355,131	-
guarantees (guarantees received)	4,856,111	3,807,088	1,049,023	27.6
	5,217,242	3,813,088	1,404,154	36.8
Off-balance transactions (granted/received liabilities)				
Current*	4,775,509	4,279,555	495,954	11.6
Forward **	241,369,530	249,925,420	(8,555,890)	(3.4)
	246,145,039	254,204,975	(8,059,936)	(3.2)

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

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

20 Changes in Group's structure

In the third quarter of 2012 the structure of the Group has not changed as a result of merger, acquisition or disposal of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

21 Achievement of 2012 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2012.

22 Information about shareholders

As at the day of publishing the Interim Statement for the third quarter 2012 the list of shareholders who held at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital is as follows:

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

In the period between publishing the interim consolidated financial statements for the second quarter 2012 and publishing this report for the third quarter 2012 the structure of major shareholdings has not undergone any changes.

23 Ownership of issuer's shares by managing and supervising officers

According to the best knowledge of the Bank – the dominant entity, the number of Bank's shares held by managing and supervising officers is presented below:

Name and surname	Function	Number of shares on day of publishing the Interim Financial Statement for the third quarter 2012	Number of shares on day of publishing the Interim Financial Statement for the second quarter 2012
Iwona Dudzińska	Member of the Managing Board	600	600
Andrzej Olechowski	Vice-chairman of Supervisory Board	1,200	1,200
Total		1,800	1,800

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

24 Information on pending proceedings

In the third quarter of 2012 there was no single proceeding regarding receivables and liabilities of the Bank or its subsidiary pending in court, public administration authority or an arbitration authority, the value of which would equal at least 10% of Bank's equity

The total value of all legal proceedings regarding receivables or liabilities, with the participation of the Bank and its subsidiaries, in the third quarter 2012 did not exceed 10% of the Bank's equity.

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

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

As at 30 September 2012, the Bank was a party to 33 proceedings regarding derivative transactions: in 24 proceedings it acted as a defendant and in 9 - as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of dispute refers mainly to the validity of the derivative transactions and client's liabilities demanded by the Bank with respect to those derivative transactions as well as potential claims regarding invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they question the validity of the agreements, dispute their liabilities towards the Bank and, in some cases, demand payments from the Bank. As at the day of financial statement preparation, in cases regarding term financial operations, two final and positive settlement regarding the derivative transactions proceedings to which the Bank is a party was made in the court, no final settlements were made for other cases.

The Bank is a party to the proceeding initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa Europay payment system operators and banks - issuers of Visa cards and Europay/ Eurocard/ Mastercard.
This procedure applies to practices limiting the competition on payment-cards market in Poland, by consisting in the joint determination of 'interchange fees' for transactions made by cards of Visa and Europay / Eurocard / Mastercard as well as limiting the access to market for operators who do not belong to the unions of card issuers and against whom proceedings have been initiated. On 22 April 2010 the Court of Appeal overturned the verdict of the Court of Competition and Consumer Protection (SOKiK), sending the case back to the court of first instance. As at 30 June 2012 no final settlements were made in the court. In accordance with the decision from 8 May 2012, the SOKiK has stopped the proceeding until the final ending of the proceeding taking place in European Union Court regarding MasterCard's European Commission Decision complainment (Act T 111/08). For the SOKiK decision from 8 May 2012 was made a complainment to the Court of Appeal, which as at 30 June 2012 is awaiting recognition. As at the day of signing the statement no further decisions in the Court of Appeal were made.

In the third quarter 2012 the Group has made a significant settlement of court case. In result of the final settlement the Bank has made a payment for complainer in amount PLN 14.4 million mainly included to previously created provision for disputes.

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

In the third quarter of 2012, the Bank and its subsidiaries entered into transactions with related entities. All transactions with related entities were dealt on market terms.

26 Information about guarantee agreements

At the end of the third quarter of 2012, 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

Although decisive measures taken by the European Central Bank, including implementation of the OMT program, should contribute to partial stabilization of the situation in the financial markets of the eurozone, considerable uncertainty as to the economic growth in Europe and in some emerging markets still prevails. Deterioration of the economic conditions in the eurozone or in China could result in a reduction of the demand for Polish export products, thus expanding the scale of the slowdown in Poland. This could have a negative effect both on the financial performance of businesses and on the situation in the labor market. Uncertainty as to future economic growth may also lead to postponement of investment projects by Polish companies and to limited inflow of direct foreign investments.

Additionally, the economic slowdown in Poland, accompanied by a recession in the eurozone could also suppress the risk appetite of foreign portfolio investors. Any substantial changes in the rate of foreign capital inflow would entail the risk of considerable fluctuations in the PLN exchange rate, thus exerting influence on the financial position of exporters, importers and clients who have incurred debt in foreign currencies.

Excess liquidity in international financial markets, related to the asset purchase programs launched by central banks with the objective of stimulating economic growth and alleviating anxiety in the financial markets may result in a major increase in raw material prices and continued massive inflation. A potential dynamic price rise could in turn lead to a decrease in real household income and reduced consumption, persuading the Polish Monetary Policy Council to give up the intention to relax its monetary policy and to lift the interest rates at a later time.

The above factors may affect the Group's performance in the following reporting periods.

Condensed interim financial statements of the Bank for the third quarter 2012

Condensed income statement

PLN '000	Third quarter period from 01.07.12 to 30.09.12	Third quarter accruals period from 01.01.12 to 30.09.12	Third quarter period from 01.07.11 to 30.09.11	Third quarter accruals period from 01.01.11 to 30.09.11
Interest and similar income	524,958	1,557,340	478,366	1,391,972
Interest expense and similar charges	(162,475)	(444,693)	(129,894)	(363,556)
Net interest income	362,483	1,112,647	348,472	1,028,416
Fee and commission income	163,570	494,807	164,551	497,292
Fee and commission expense	(16,898)	(61,714)	(21,679)	(55,594)
Net fee and commission income	146,672	433,093	142,872	441,698
Dividend income	-	38,565	-	26,271
Net income on trade financial instruments and revaluation	61,748	279,944	101,782	237,283
Net gain on debt investment securities	97,844	216,912	7,600	18,934
Other operating income	5,934	26,722	6,825	27,175
Other operating expenses	(14,154)	(40,240)	(10,267)	(28,631)
Net other operating income	(8,220)	(13,518)	(3,442)	(1,456)
General administrative expenses	(315,769)	(1,046,124)	(336,489)	(1,001,434)
Depreciation of fixed and intangible assets	(13,328)	(42,277)	(13,285)	(39,048)
Profit/(loss) on sale of non-financial assets	6	68	(153)	2,123
Result on write-off due to impairment of financial assets and provisions for off-balance sheet liabilities	(21,277)	(53,992)	(21,168)	(75,822)
Profit before tax	310,159	925,318	226,189	636,965
Income tax expense	(62,828)	(180,162)	(48,625)	(128,194)
Net profit	247,331	745,156	177,564	508,771
Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Net earnings per share (in PLN)		5,70		3,89
Diluted net earnings per share (in PLN)		5,70		3,89

Condensed statement of comprehensive income

PLN '000	Third quarter period from 01.07.12 to 30.09.12	Third quarter accruals period from 01.01.12 to 30.09.12	Third quarter period from 01.07.11 to 30.09.11	Third quarter accruals period from 01.01.11 to 30.09.11
Net income	247,331	745,156	177,564	508,771
Other comprehensive income:				
Valuation of financial assets available-for-sale (net)	48,805	167,380	(54,798)	(34,549)
Total comprehensive income	296,136	912,536	122,766	474,222

Condensed statement of financial position

PLN '000 State as at	30.09.2012	31.12.2011
ASSETS		
Cash and balances with the Central Bank	937,529	979,616
Amounts due from banks	2,091,439	548,182
Financial assets held-for-trading	5,928,388	5,801,713
Debt securities available-for-sale	8,717,294	17,625,355
Capital investments	263,464	303,626
Amounts due from customers	15,286,340	14,049,241
Tangible fixed assets	376,048	406,632
Intangible assets	1,324,135	1,290,296
Income tax assets	256,364	318,015
deferred	256,364	318,015
Other assets	226,220	193,676
Fixed assets held-for-sale	12,554	25,662
Total assets	35,419,775	41,542,014
LIABILITIES		
Amounts due to banks	2,182,815	5,543,891
Financial liabilities held-for-trading	4,657,620	4,840,447
Amounts due to customers	20,958,379	24,130,225
Amounts due to debt securities issuance	2,038	25,336
Provisions	41,312	34,857
Income tax liabilties	31,321	72,919
current	31,321	72,919
Other liabilities	638,788	538,752
Total liabilities	28,512,273	35,186,427
EQUITY		
Share capital	522,638	522,638
Share premium	2,944,585	2,944,585
Revaluation reserve	84,895	(82,485)
Other reserves	2,610,228	2,249,555
Retained earnings	745,156	721,294
Total equity	6,907,502	6,355,587
Total liabilities and equity	35,419,775	41,542,014

Condensed statement of changes in equity

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2012	522,638	2,944,585	(82,485)	2,249,555	721,294	6,355,587
Total comprehensive income	-	-	167,380	-	745,156	912,536
Dividends paid	-	-	-	-	(360,621)	(360,621)
Transfer to capital	-	-	-	360,673	(360,673)	-
Balance as at 30 September 2012	522,638	2,944,585	84,895	2,610,228	745,156	6,907,502

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2011	522,638	2,944,585	(44,848)	2,251,691	748,026	6,422,092
Total comprehensive income	-	-	(34,549)	-	508,771	474,222
Valuation of capital rewards program, including:	-	-	-	(2,789)	-	(2,789)
valuation change	-	-	-	(5,900)	-	(5,900)
deffered income tax	-	-	-	3,111	-	3,111
Dividends paid	-	-	-	-	(747,373)	(747,373)
Tramsfer to capital	-	-	-	653	(653)	-
Balance as at 30 September 2011	522,638	2,944,585	(79,397)	2,249,555	508,771	6,146,152

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2011	522,638	2,944,585	(44,848)	2,251,691	748,026	6,422,092
Total comprehensive income	-	-	(37,637)	-	721,294	683,657
Valuation of capital rewards program, including:	-	-	-	(2,789)	-	(2,789)
valuation change	-	-	-	(5,900)	-	(5,900)
deffered income tax	-	-	-	3,111	-	3,111
Dividends paid	-	-	-	-	(747,373)	(747,373)
Transfer to capital	-	-	-	653	(653)	-
Balance as at 31 December 2011	522,638	2,944,585	(82,485)	2,249,555	721,294	6,355,587

Condensed summary statement of cash flows

PLN '000	Third quarter accruals period from 01.01.12 to 30.09.12	Third quarter accruals period from 01.01.11 to 30.09.11
Cash at the beginning of the reporting period	1,044,107	3,301,549
Cash flows from operating activities	547,638	(516,768)
Cash flows from investing activities	25,700	(16,784)
Cash flows from financing activities	(390,518)	(756,639)
Cash at the end of the reporting period	1,226,927	2,011,358
Increase / Decrease in net cash	182,820	(1,290,191)

Condensed additional information

1. Declaration of conformity

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting, adopted by European Union and with other applicable regulations. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the financial year ended 31 December 2011 and condensed interim consolidated financial statement of the Group for the third quarter 2012.

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 2009, No. 33, item 259 with further changes) the Bank is obliged to publish its financial results for the 9 month period ended 30 September 2012 which is deemed to be the current interim financial reporting period.

2. Significant accounting policies

Condensed interim unconsolidated financial statements of the Bank for the third quarter of 2012 have been prepared in accordance with the Decree by virtue of which the issuer, being a parent entity, is not obliged to provide separate interim financial statements, on condition that it includes in the consolidated interim financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and condensed supplementary notes, comprising of information and data significant for the assessment of the issuer's financial standing and its profit or loss, but not presented in the interim consolidated financial statement. In addition, it's required to prepare the condensed interim financial statements in accordance with accounting principles adopted in the preparation process of the annual financial statements.

Principles adopted in the preparation process of these condensed interim consolidated financial statement are consistent with the principles, described in the annual unconsolidated financial statements of the Bank as at 31 December 2011.

Other information and explanations concerning these condensed interim consolidated financial statements for the third quarter 2012 contain also all information and explanatory data essential for these condensed interim financial statements.

The summary of Bank's financial results for the third quarter of 2012 is presented below.

Bank's financial results

During the three quarters of 2012 the Bank has generated profit before tax of PLN 925 million, which is an increase from PLN 637 million comparing to the corresponding period of 2011, while the gross profit in the third quarter of 2012 amounted PLN 310 million comparing to the PLN 226 million in the corresponding period of 2011.

The accrued (period from January to September) net profit was PLN 745 million, which is an increase of PLN 236 million comparing to the corresponding period of pervious year, while the net profit in the third quarter was PLN 247 million comparing to the PLN 178 million of net profit in the corresponding period of 2011.

The significant impact on the Bank net profit in the third period had the increase of financial instruments result (trade financial instruments and revaluation, debt securities) by total of PLN 50 million (45.9%), increase in interest and commission income by PLN 18 million (3.6%), decrease of financial result on other operating income and expenses as well as income on sale of non-financial assets by PLN 5 million, decrease in banking activity costs and general administrative costs and depreciation by PLN 21 million (5.9%) and higher income tax burden by PLN 14 million (29.2%).

The consolidated quarter report for the third quarter of 2012 will be available on the website of Bank Handlowy w Warszawie S.A. at **www.citihandlowy.pl**

Signature of the Vice Director of
Financial Reporting and Control Department

Date and signature

05.11.2012
....

Signature of the Vice President of
Management Board

Date and signature

05.11.2012
....