

Warsaw, August 1st, 2014

Subject: Preliminary consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the second quarter of 2014

Legal basis: Art. 5 section 1 item 25) of the Ordinance of the Minister of Finance on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state dated February 19, 2009 (Journal of Laws of 2014, item 133).

Bank Handlowy w Warszawie S.A. (hereinafter "Bank", "Citi Handlowy") hereby presents the preliminary consolidated financial results of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter "the Group") for the second quarter of 2014.

In the second quarter of 2014, the Group posted a consolidated net profit of PLN **266.2 million**, down by PLN 34.1 million (or 11.4%) compared to the second quarter of 2013, however it increased as compared to the first quarter of 2014 by PLN 18.6 million, or 7.5%. The YoY decrease in the net profit was primarily due to lower treasury result and the positive impact of the sale of a part of retail impaired exposures in Q2, 2013. The major driver of the net profit growth QoQ was revenue which reported positive dynamics in all main lines (i.e. net interest income, net fee and commission income, and treasury result) and amounted to **PLN 651.1 million**.

Due to higher revenue and good cost control the Group maintained high efficiency confirmed by Cost/Income ratio reaching the level of the strategic target, i.e. **50%**

In the second quarter of 2014 Citi Handlowy maintained a strong and safe capital base, with its capital adequacy ratio (according to the Basel III methodology) at the level of **17%**. At the same time the Bank's NPL ratio further dropped to 5.8% as of the end of the second quarter of 2014.

Consolidated income statement

PLN '000	01.04 – 30.06.2014	01.04 - 30.06.2013	Change	
			PLN '000	%
Net interest income	302,121	310,537	(8,416)	(2.7%)
Net fee and commission income	167,130	165,130	2,000	1.2%
Dividend income	5,682	4,225	1,457	34.5%
Net income on trade financial instruments and revaluation	105,944	117,092	(11,148)	(9.5%)
Net gain on debt investment securities	65,656	81,334	(15,678)	(19.3%)
Net other operating income	4,590	319	4,271	-
Total income	651,123	678,637	(27,514)	(4.1%)
General administrative expenses and depreciation	(328,322)	(330,985)	2,663	(0.8%)
Profit/(loss) on sale of other assets	144	94	50	53.2%
Net impairment losses on financial assets and provisions for financial liabilities and guarantees granted	(4,377)	29,198	(33,575)	-
Share in net profits (losses) of entities valued at equity method	322	(1,239)	1,561	-
Profit before tax	318,890	375,705	(56,815)	(15.1%)
Corporate income tax	(52,641)	(75,358)	22,717	(30.1%)
Net profit	266,249	300,347	(34,098)	(11.4%)

The main determinants of the net operating income of the Group in the second quarter of 2014 were in particular the following:

- net interest income of PLN 302.1 million – for the first time since the beginning of easing the monetary cycle (i.e. since the fourth quarter of 2012) the net interest income grew QoQ (by PLN 9.0 million, or 3.1%). This was due to higher customer result, mainly as a result of the

increase in loan volumes both on the consumer and on the corporate side. The YoY decrease in the net interest income stemmed from lower interest income from debt securities (PLN -13.6 million, or 10.4%);

Net interest income

PLN '000	01.04. - 30.06.2014	01.04. - 30.06.2013	Change	
			PLN '000	%
Interest and similar income from:				
Balances with the Central Bank	6,675	6,294	381	6.1%
Amounts due from banks	16,155	13,930	2,225	16.0%
Amounts due from customers, including:	247,290	260,759	(13,469)	(5.2%)
Financial sector entities	4,504	9,338	(4,834)	(51.8%)
Non-financial sector entities, including:	242,786	251,421	(8,635)	(3.4%)
Credit cards	76,298	69,409	6,889	9.9%
Debt securities available-for-sale	91,657	102,484	(10,827)	(10.6%)
Debt securities held-for-trading	26,047	28,864	(2,817)	(9.8%)
Total	387,824	412,331	(24,507)	(5.9%)
Interest expense and similar charges on:				
Amounts due to banks	(11,151)	(11,817)	666	(5.6%)
Amounts due to financial sector entities	(22,901)	(22,215)	(686)	3.1%
Amounts due to non-financial sector entities	(50,666)	(66,853)	16,187	(24.2%)
Loans and advances received	(985)	(909)	(76)	8.4%
Total	(85,703)	(101,794)	16,091	(15.8%)
Net interest income	302,121	310,537	(8,416)	(2.7)%

- net fee and commission income of PLN 167.1 million versus PLN 165.1 million in the second quarter of 2013 - increase driven mainly by credit cards (among others as a result of higher cards' transaction volumes) and custody services. These areas also reported positive dynamics QoQ, which together with a growth in fees for brokering the sale of insurance and investment products (a result of increased sales of investment products, mainly offshore investment funds) contributed to the increase of the net fee and commission income by PLN 10.1 million, or 6.5% compared to the first quarter of 2014.

Net fee and commission income

PLN '000	01.04 – 30.06.2014	01.04 - 30.06.2013	Change	
			PLN '000	%
Fee and commission income				
Insurance and investment products	35,409	37,980	(2,571)	(6.8%)
Payment and credit cards	61,354	58,155	3,199	5.5%
Payment orders	28,059	26,583	1,476	5.6%
Custody services	28,411	25,432	2,979	11.7%
Cash loans	909	1,389	(480)	(34.6%)
Brokerage operations	19,137	20,770	(1,633)	(7.9%)
Cash management services	6,334	6,304	30	0.5%
Guarantees granted	3,457	3,260	197	6.0%
Financial liabilities granted	1,439	1,392	47	3.4%
Other	8,329	13,142	(4,813)	(36.6%)
Total	192,838	194,407	(1,569)	(0.8%)
Fee and commission expense				
Payment and credit cards	(11,814)	(13,222)	1,408	(10.6%)
Brokerage operations	(5,448)	(6,078)	630	(10.4%)

PLN '000	01.04 – 30.06.2014	01.04 - 30.06.2013	Change	
			PLN '000	%
Fees paid to the National Depository for Securities (KDPW)	(5,027)	(5,209)	182	(3.5%)
Brokerage fees	(836)	(1,425)	589	(41.3%)
Other	(2,583)	(3,343)	760	(22.7%)
Total	(25,708)	(29,277)	3,569	(12.2%)
Net fee and commission income				
Insurance and investment products	35,409	37,980	(2,571)	(6.8%)
Payment and credit cards	49,540	44,933	4,607	10.3%
Payment orders	28,059	26,583	1,476	5.6%
Custody services	28,411	25,432	2,979	11.7%
Cash loans	909	1,389	(480)	(34.6%)
Brokerage operations	13,689	14,692	(1,003)	(6.8%)
Cash management services	6,334	6,304	30	0.5%
Guarantees granted	3,457	3,260	197	6.0%
Financial liabilities granted	1,439	1,392	47	3.4%
Fees paid to the National Depository for Securities (KDPW)	(5,027)	(5,209)	182	(3.5%)
Brokerage fees	(836)	(1,425)	589	(41.3%)
Other	5,746	9,799	(4,053)	(41.4%)
Net fee and commission income	167,130	165,130	2,000	1.2%

- net income on trade financial instruments and revaluation of PLN 105.9 million – down by PLN 11.1 million YoY and PLN 19.4 million QoQ primarily due to lower result from the activity in the interbank market;
- net gain on investment debt securities of PLN 65.7 million – down by PLN 15.7 million compared to the corresponding period of 2013 and at the same time much higher than in the first quarter of 2014 (PLN +26.0 million; 65.7%);
- general administrative and depreciation expenses of PLN 328.3 million versus PLN 331.0 million recorded in the corresponding period of 2013 – a decrease of PLN 2.7 million (or 0.8%) primarily as a consequence of lower staff expenses by PLN 8.6 million (or 5.3%) as a result of the employment restructuring. On the other hand, administrative expenses grew by PLN 1.5 million, due to, among other things, increased spending on marketing and advertising in the Consumer Bank and higher costs of external services concerning distribution of banking products due to increased sales. The aforementioned factors also led to the increase in administrative expenses QoQ. Additionally, in the second quarter of 2014 staff expenses increased, mainly as a result of sales bonuses and equity compensation benefits.

General administrative expenses and depreciation expense

PLN '000	01.04 – 30.06.2014	01.04 - 30.06.2013	Change	
			PLN '000	%
Staff expenses	(154,259)	(162,870)	8,611	(5.3%)
Remuneration costs	(103,627)	(111,792)	8,165	(7.3%)
Bonuses and rewards	(32,593)	(31,100)	(1,493)	4.8%
Social security costs	(18,039)	(19,978)	1,939	(9.7%)
Administrative expenses	(156,213)	(154,726)	(1,487)	1.0%
Telecommunication fees and hardware purchase costs	(45,351)	(50,986)	5,635	(11.1%)
Costs of external services, including advisory, audit and consulting	(17,495)	(18,806)	1,311	(7.0%)
Building maintenance and rent costs	(23,556)	(22,128)	(1,428)	6.5%
Advertising and Marketing costs	(7,671)	(4,803)	(2,868)	59.7%
Cash management services, clearing house (KIR) services and other transactional costs	(11,388)	(10,741)	(647)	6.0%
Costs of external services concerning distribution of banking products	(14,402)	(13,253)	(1,149)	8.7%
Postal services, office supplies and printmaking costs	(3,450)	(5,642)	2,192	(38.9%)
Training and education costs	(880)	(2,538)	1,658	(65.3%)

PLN '000	01.04 – 30.06.2014	01.04 - 30.06.2013	Change	
			PLN '000	%
Banking supervision costs	(2,476)	(2,198)	(278)	12.6%
Other costs	(29,544)	(23,631)	(5,913)	25.0%
Depreciation/amortization of tangible and intangible assets	(17,850)	(13,389)	(4,461)	33.3%
General administrative expenses and depreciation expense in total	(328,322)	(330,985)	2,663	(0.8%)

- net impairment losses of PLN 4.4 million versus the reversal of net impairment losses of PLN 29.2 million in the second quarter of 2013 and PLN 2.4 million in the first quarter of 2014. In the Corporate Banking net impairment losses decreased (PLN +0.3 million in the second quarter of 2014 versus PLN -6.8 million in the corresponding period of the previous year and PLN -2.3 million in the first quarter of 2014) as a result of the improvement of the quality of the credit portfolio in MME and SME segments. In the Consumer Banking the quality of the portfolio of unsecured retail receivables stabilized and net impairment losses amounted to PLN 4.7 million. At the same time the NPL ratio improved to 9.7% from 11.9% in the second quarter of 2013. Net impairment losses in the second quarter of 2013 included PLN 23.3 million from the sale of a part of retail impaired exposures.
- income tax of PLN 52.6 million – lower income tax in the second quarter of 2014 resulting from the recognition of the expected refund of the corporate income tax.

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

PLN '000	01.04 – 30.06.2014	01.04 - 30.06.2013	Change	
			PLN '000	%
Net impairment write-downs of financial assets				
Impairment write-downs				
Amounts due from banks	(588)	(469)	(119)	25.4%
Amounts due from customers	(53,578)	(62,291)	8,713	(14.0%)
Amounts due from matured derivative transactions	(279)	(1)	(278)	-
Other	(1,303)	(2,787)	1,484	(53.2%)
	(55,748)	(65,548)	9,800	(15.0%)
Reversals of impairment write-downs				
Amounts due from banks	347	698	(351)	(50.3%)
Amounts due from customers	49,482	70,589	(21,107)	(29.9%)
Amounts due from matured derivative transactions	7	65	(58)	(89.2%)
Recovers from sold debts	143	23,441	(23,298)	(99.4%)
	49,979	94,793	(44,814)	(47.3%)
Net impairment losses on financial assets	(5,769)	29,245	(35,014)	-
Creation of provisions for financial liabilities and guarantees granted	(6,497)	(8,502)	2,005	(23.6%)
Release of provisions for financial liabilities and guarantees granted	7,889	8,455	(566)	(6.7%)
Net provisions for financial liabilities and guarantees granted	1,392	(47)	1,439	-
Net impairment losses on financial assets and provisions for financial liabilities and guarantees granted	(4,377)	29,198	(33,575)	-

Consolidated statement of comprehensive income

PLN'000	2Q 2014	2Q 2013
	01.04. - 30.06. 2014	01.04. - 30.06. 2013
Net profit	266,249	300,347
Other comprehensive income:		
Net valuation of financial assets available-for-sale	74,011	(100,377)

	2Q 2014	2Q 2013
	01.04. - 30.06. 2014	01.04. - 30.06. 2013
Exchange rates differences	(79)	1,055
Other comprehensive income after tax	79,932	(99,322)
Total comprehensive income	340,181	201,025

Consolidated statement of financial position

As of June 30, 2014, total assets of the Group stood at PLN 45,374.5 million, i.e. they remained almost unchanged (-0.1%) compared to the end of 2013.

The change was predominantly due to the following events:

- receivables from customers increased by PLN 1.8 billion, or 11.6%, predominantly due to lending growth in the non-financial sector (PLN +1.3 billion, or 8.7%) and higher receivables for reverse repo transactions in the financial sector (PLN +0.5 billion). Receivables in the non-financial sector increased both on the side of corporate customers (PLN +0.9 billion, or 9.8%; increase in all customer segments) and retail customers (PLN +0.4 billion, or 6.9%; increase in all products, while unsecured loans reported the highest dynamics);
- debt securities available-for-sale portfolio decreased by PLN 4.8 billion, or 27.0%, as a result of decreased position in the National Bank of Poland cash bills and bonds;
- financial assets held-for-trading increased by PLN 1.2 billion, or 21.5%, mainly as a result of increased State Treasury bond portfolio;
- receivables from banks increased by PLN 1.1 billion, or 30.7%.

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

Consolidated statement of financial position

PLN '000	State as at		Change	
	30.06.2014	31.12.2013	PLN '000	%
ASSETS				
Cash and balances with the Central Bank	1,223,516	778,464	445,052	57.2%
Amounts due from banks	4,628,034	3,539,927	1,088,107	30.7%
Financial assets held-for-trading	6,990,515	5,751,829	1,238,686	21.5%
Debt securities available-for-sale	12,857,655	17,616,041	(4,758,386)	(27.0%)
Capital investments valued at equity method	8,126	7,814	312	4.0%
Equity investments available for sale	13,671	15,280	(1,609)	(10.5%)
Amounts due from customers	16,999,632	15,231,327	1,768,305	11.6%
Tangible fixed assets	377,406	384,581	(7,175)	(1.9%)
Intangible assets	1,402,198	1,417,363	(15,165)	(1.1%)
Income tax assets	1,383	80,854	(79,471)	(98.3%)
Deferred income tax asset	190,884	203,132	(12,248)	(6.0%)
Other assets	667,979	359,039	308,940	86.0%
Fixed assets held-for-sale	13,544	12,738	806	6.3%
Total assets	45,374,543	45,398,389	(23,846)	(0.1%)
LIABILITIES				
Due to banks	4,051,384	6,378,436	(2,327,052)	(36.5%)
Financial liabilities held-for-trading	5,775,176	4,196,896	1,578,280	37.6%

PLN '000	State as at		Change	
	30.06.2014	31.12.2013	PLN '000	%
Hedging derivatives	-	24,710	(24,710)	(100.0%)
Due to customers	26,299,341	26,568,765	(269,424)	(1.0%)
Provisions	62,148	89,284	(27,136)	(30.4%)
Current income tax liabilities	12,395	84	12,311	.-
Other liabilities	2,241,505	832,950	1,408,555	169.1%
Total liabilities	38,441,949	38,091,125	350,824	0.9%
EQUITY				
Share capital	522,638	522,638	-	-
Share premium	3,000,298	2,997,759	2,539	0.1%
Revaluation reserve	2,964	(42,963)	45,927	.-
Other reserves	2,898,679	2,859,388	39,291	1.4%
Retained earnings	508,015	970,442	(462,427)	(47.7%)
Total equity	6,932,594	7,307,264	(374,670)	(5.1%)
Total liabilities and equity	45,374,543	45,398,389	(23,846)	(0.1%)

Receivables from customers divided into at risk and not at risk of impairment

PLN '000	30.06.2014	31.12.2013	Change	
			PLN '000	%
Not at risk of impairment, including:	16,811,180	14,983,311	1,827,869	12.2%
non-financial sector	15,592,671	14,267,713	1,324,958	9.3%
corporate customers*	10,050,346	9,093,770	956,576	10.5%
individual customers	5,542,325	5,173,943	368,382	7.1%
At risk of impairment, including:	1,024,740	1,135,085	(110,345)	(9.7%)
non-financial sector	1,005,744	1,116,089	(110,345)	(9.9%)
corporate customers*	410,744	470,945	(60,201)	(12.8%)
individual customers	595,000	645,144	(50,144)	(7.8%)
Dues related to matured derivative transactions	93,597	96,964	(3,367)	(3.5%)
Total gross receivables from customers, including:	17,929,517	16,215,360	1,714,157	10.6%
non-financial sector	16,598,415	15,383,802	1,214,613	7.9%
corporate customers*	10,461,090	9,564,715	896,375	9.4%
individual customers	6,137,325	5,819,087	318,238	5.5%
Impairment, including:	(929,885)	(984,033)	54,148	(5.5%)
Dues related to matured derivative transactions	(81,319)	(81,556)	237	(0.3%)
Total net receivables from customers	16,999,632	15,231,327	1,768,305	11.6%
Provision coverage ratio**	82.8%	79.5%		
corporate customers*	82.1%	73.8%		
individual customers	82.7%	83.1%		
Non-performing loans ratio (NPL)	5.8%	7.0%		

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

**Ratio calculated with IBNR impairment

Customer net receivables

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

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

Receivables from individual clients – management view

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

Customer liabilities

PLN '000	30.06.2014	31.12.2013	Change	
			PLN '000	%
Current accounts of:	15,752,146	17,303,756	(1,551,610)	(9.0%)
financial sector entities	349,663	320,634	29,029	9.1%
non-financial sector entities, including:	15,402,483	16,983,122	(1,580,639)	(9.3%)
corporate customers*, including:	9,266,530	11,051,215	(1,784,685)	(16.1%)
budgetary units	1,940,014	3,347,446	(1,407,432)	(42.0%)
individual customers	6,135,953	5,931,907	204,046	3.4%
Term deposits from:	10,084,819	8,780,957	1,303,862	14.8%
financial sector entities	4,266,717	2,939,233	1,327,484	45.2%
non-financial sector entities, including:	5,818,026	5,841,724	(23,622)	(0.4%)
corporate customers*, including:	4,587,911	4,866,448	(278,537)	(5.7%)
budgetary units	701,335	216,815	484,520	223.5%
individual customers	1,230,191	975,276	254,915	26.1%
Total customers deposits	25,836,965	26,084,713	(247,748)	(0.9%)
Other liabilities to customers	462,376	484,052	(21,676)	(4.5%)
Total liabilities towards customers	26,299,341	26,568,765	(269,424)	(1.0%)

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

Financial ratios and employment data

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

Ratios	2Q 2014	2Q 2013
ROE	13.1%	17.9%
ROA	1.8%	2.7%
Cost/Income	50%	49%
Interest margin on total assets	2.6%	3.2%
Interest margin on interest-bearing assets	3.0%	3.8%
Non-financial sector loans/ Non-financial sector deposits	74%	73%
Capital adequacy ratio	17.0%	17.5%

Employment in the Group

In full time job equivalents (FTE)	01.04 – 30.06.2014	01.04 – 30.06.2013	Change FTEs	%
Average employment in the period	4,361	4,891	(530)	(10.8)
Employment at the end of quarter	4,332	4,796	(464)	(9.7)

Consolidated income statement of the Group by business segments

For the period	01.04 – 30.06.2014			01.04 -30.06.2013		
PLN '000	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
Net interest income	136,940	165,181	302,121	146,560	163,977	310,537
Net commission income	73,140	93,990	167,130	75,411	89,719	165,130
Dividend income	2,114	3,568	5,682	1,294	2,931	4,225
Net income on trade financial instruments and revaluation	98,118	7,826	105,944	108,477	8,615	117,092
Net gain on debt investment securities	65,656	-	65,656	81,334	-	81,334
Net other operating income	9,084	(4,494)	4,590	4,914	(4,595)	319
General administrative expenses	(136,619)	(173,853)	(310,472)	(135,091)	(182,505)	(317,596)
Depreciation of fixed assets and intangible assets	(5,772)	(12,078)	(17,850)	(6,414)	(6,975)	(13,389)
Profit / (loss) on sale of other assets	143	1	144	92	2	94
Net impairment due to financial assets and provisions value for granted financial and guarantees liabilities	337	(4,714)	(4,377)	(6,751)	35,949	29,198
Operating income	243,141	75,427	318,568	269,826	107,118	376,944
Share in net profits (losses) of entities valued at equity method	322	-	322	(1,239)	-	(1,239)
Profit before tax	243,463	75,427	318,890	268,587	107,118	375,705
Income tax expense			(52,641)			(75,358)
Net profit			266,249			300,347