

Bank Handlowy w Warszawie S.A. Group
Independent Registered Auditor's Opinion
Consolidated Financial Statements
Director's Report
Registered Auditor's Report on the audit of the consolidated
financial statements
For the year from 1 January to 31 December 2013

Content:

Independent Registered Auditor's Opinion

prepared by PricewaterhouseCoopers Sp. z o.o.

Consolidated Financial Statements

prepared by Bank Handlowy w Warszawie S.A. Group

Directors' Report

prepared by Management Board of Bank Handlowy w Warszawie S.A.

Registered Auditor's Report on the audit of the consolidated
financial statements

prepared by PricewaterhouseCoopers Sp. z o.o.

Independent Registered Auditor's Opinion

To the General Shareholders' Meeting and the Supervisory Board of Bank Handlowy w Warszawie S.A.

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group (hereinafter called "the Group"), having Bank Handlowy w Warszawie S.A., Senatorska 16 Street, Warsaw, as its parent company (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2013, showing total assets and total equity and liabilities of PLN 45,398,389 thousand, the consolidated income statement for the year from 1 January to 31 December 2013, showing a net profit of PLN 972,708 thousand, the consolidated statement of comprehensive income for the year from 1 January to 31 December 2013, showing total comprehensive income of PLN 672,368 thousand, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Parent Company's Management Board is responsible for preparing the consolidated financial statements and Group Directors' Report in accordance with the applicable regulations, and for the correctness of the accounting records. Members of the Management Board and Members of the Supervisory Board of the Parent Company are obliged to ensure that the consolidated financial statements and the Group Director's Report comply with the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended).

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion on whether the consolidated financial statements comply, in all material respects, with the applicable accounting policies and whether they present, in all material respects, a true and clear view of the Group's financial position and results.

We conducted our audit in accordance with:

- a. the provisions of Chapter 7 of the Accounting Act;
- b. national standards of auditing issued by the National Council of Registered Auditors.

Translation note:

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Independent Registered Auditor's Opinion

To the General Shareholders' Meeting and the Supervisory Board of Bank Handlowy w Warszawie S.A. (cont.)

Our audit was planned and performed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included assessing the Group's accounting policies and significant estimates made during the preparation of the consolidated financial statements, as well as evaluating the overall presentation thereof. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements, in all material respects:

- a. give a fair and clear view of the Group's financial position as at 31 December 2013 and of the results of its operations for the year from 1 January to 31 December 2013, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- b. comply in terms of form and content with the applicable laws;
- c. have been prepared on the basis of properly maintained consolidation documentation.

The information contained in the Group Directors' Report for the year from 1 January to 31 December 2013 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (*"the Decree"* – Journal of Laws of 2014, item 133, with further amendments) and is consistent with the information presented in the audited consolidated financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Adam Celiński

Group Registered Auditor, Key Registered Auditor
No. 90033

Warsaw, 13 March 2014

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Bank Handlowy w Warszawie S.A. Group

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013

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Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013

To the General Shareholders' Meeting and the Supervisory Board of Bank Handlowy w Warszawie S.A.

This report contains 16 consecutively numbered pages and consists of:

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the financial year from 1 January to 31 December 2013

I. General information about the Group

- a. Bank Handlowy w Warszawie Spółka Akcyjna ("the Parent Company") with its seat in Warsaw, Senatorska 16 Street, is the parent company of Bank Handlowy w Warszawie S.A. Group ("the Group").
- b. The Parent Company was formed on the basis of a Notarial Deed drawn up on 13 April 1870. The Memorandum of Association of the Bank was drawn up as a Notarial Deed at the Notary Public's Office of Andrzej Przybyła in Warsaw on 31 March 1998 and registered with Rep. A No. 2189/98. On 22 February 2001, the Parent Company was entered in the Register of Businesses maintained by the District Court in Warsaw, XIX Business Department of the National Court Register, with the reference number KRS 0000001538.
- c. The Parent Company was assigned a tax identification number (NIP) 526-03-00-291 for the purpose of making tax settlements and a REGON number 000013037 for statistical purposes.
- d. As at 31 December 2013 the Parent Company's share capital amounted to PLN 522,638 thousand and consisted of 130,659,600 ordinary shares, with a nominal value of PLN 4.00 each.

- e. As at 31 December 2013, the Parent Company's shareholders were:

| Shareholder's name | Number of shares held | Par value of shares held (PLN '000) | Type of shares held | Votes (%) |
|---|-----------------------|-------------------------------------|---------------------|--------------|
| Citibank Overseas Investment Corporation, USA | 97,994,700 | 391,979 | ordinary | 75.0 |
| Other shareholders | 32,664,900 | 130,659 | ordinary | 25.0 |
| | 130,659,600 | 522,638 | | 100.0 |

- f. In the audited year, the Group's operations comprised, among others:

- accepting cash placements payable on demand or on maturity and maintaining accounts for these placements;
- maintaining other bank accounts;
- clearing cash transactions;
- granting loans and cash advances;
- granting and confirming bank guarantees and opening and confirming letters of credit;
- issuing payment cards and conducting transactions with the use of such cards;
- conducting derivative transactions;
- brokerage activity;
- leasing activity.

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the financial year from 1 January to 31 December 2013

I. General information about the Group (cont.)

g. As at 31 December 2013, Bank Handlowy w Warszawie S.A. Group comprised the following entities:

| Name | Nature of equity relationship (indirect and direct interest in %) | Consolidation method | Auditor of the financial statements | Type of opinion | Balance sheet date |
|---------------------------------------|--|-----------------------------|--|------------------------|---------------------------|
| Bank Handlowy w Warszawie S.A. | Parent Company | Not applicable | PricewaterhouseCoopers Sp. z o.o. | unqualified | 31 December 2013 |
| Handlowy-Leasing Sp. z o.o. | Subsidiary (100.00%) | Full | PricewaterhouseCoopers Sp. z o.o. | audit in progress | 31 December 2013 |
| Dom Maklerski Banku Handlowego S.A. | Subsidiary (100.00%) | Full | PricewaterhouseCoopers Sp. z o.o. | audit in progress | 31 December 2013 |
| PPH Spomasz Sp. z o.o. in liquidation | Subsidiary (100.00%) | Full | Not audited | - | 31 December 2013 |
| Handlowy Investments S.A. | Subsidiary (100.00%) | Full | Grant Thornton Lux Audit S.A. | audit in progress | 28 February 2014* |
| Handlowy Inwestycje Sp. z o.o. | Subsidiary (100.00%) | Equity | PricewaterhouseCoopers Sp. z o.o. | audit in progress | 31 December 2013 |

* In case of Handlowy Investments S.A., which is an entity that prepares its financial statements as at balance sheet date other than the balance sheet date of consolidated financial statements of the Group, relevant requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union were applied.

Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the financial year from 1 January to 31 December 2013

I. General information about the Group (cont.)

h. During the audited year, the Management Board of the Parent Company comprised:

- Sławomir S. Sikora President of the Management Board
- Brendan Carney Vice President of the Management Board
- Misbah Ur-Rahman-Shah Vice President of the Management Board
- Witold Zieliński Vice President of the Management Board
- Barbara Sobala Vice President of the Management Board
from 15 October 2013
- Robert Massey JR Vice President of the Management Board
to 20 June 2013
- Iwona Dudzińska Member of the Management Board

i. The Parent Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Company has decided to prepare its consolidated financial statements in accordance with IFRS as adopted by the European Union.

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements
for the financial year from 1 January to 31 December 2013

II. Information about the audit

- a. The audit of the consolidated financial statements as at and for the year from 1 January to 31 December 2013 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Adam Celiński (no. 90033).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 6/V/2013 of the Supervisory Board of Bank Handlowy w Warszawie S.A. dated 19 March 2013 in accordance with paragraph 18, clause 1, point 7 of the Parent Company's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws No. 77, item 649, as amended).
- d. The audit was conducted in accordance with an agreement dated 17 May 2013, in the following periods:
 - interim audit from 1 November to 31 December 2013;
 - final audit from 2 January to 13 March 2014.



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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the financial year from 1 January to 31 December 2013

III. The Group's results, financial position and significant items of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013 (selected lines)

| | | | Change | | Structure | |
|---|------------------------|------------------------|------------------|------------|-------------------|-------------------|
| | 31.12.2013 PLN '000 | 31.12.2012 PLN '000 | PLN '000 | (%) | 31.12.2013 (%) | 31.12.2012 (%) |
| ASSETS | | | | | | |
| Cash and balances with Central Bank | 778,464 | 1,357,308 | (578,844) | (42.6) | 1.7 | 3.1 |
| Amounts due from banks | 3,539,927 | 1,461,901 | 2,078,026 | 142.1 | 7.8 | 3.4 |
| Financial assets held-for-trading | 5,751,829 | 6,838,483 | (1,086,654) | (15.9) | 12.7 | 15.7 |
| Debt securities available-for-sale | 17,616,041 | 15,003,003 | 2,613,038 | 17.4 | 38.9 | 34.5 |
| Equity investments valued at equity method | 7,814 | 15,110 | (7,296) | (48.3) | - | - |
| Other equity investments available-for-sale | 15,280 | 19,921 | (4,641) | (23.3) | - | - |
| Amounts due from customers | 15,231,327 | 16,221,412 | (990,085) | (6.1) | 33.6 | 37.4 |
| Tangible fixed assets | 384,581 | 409,916 | (25,335) | (6.2) | 0.8 | 0.9 |
| Intangible assets | 1,417,363 | 1,379,931 | 37,432 | 2.7 | 3.1 | 3.2 |
| Receivables due to current income tax | 80,854 | 2,702 | 78,152 | >100 | 0.2 | - |
| Asset due to deferred income tax | 203,132 | 218,786 | (15,654) | (7.2) | 0.4 | 0.5 |
| Other assets | 359,039 | 567,736 | (208,697) | (36.8) | 0.8 | 1.3 |
| Non-current assets held-for-sale | 12,738 | 12,554 | 184 | 1.5 | - | - |
| TOTAL ASSETS | 45,398,389 | 43,508,763 | 1,889,626 | 4.3 | 100.0 | 100.0 |

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the financial year from 1 January to 31 December 2013

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013 (selected lines) (cont.)

| | | | Change | | Structure | |
|--|------------------------|------------------------|------------------|--------------|-------------------|-------------------|
| | 31.12.2013 PLN '000 | 31.12.2012 PLN '000 | PLN '000 | (%) | 31.12.2013 (%) | 31.12.2012 (%) |
| LIABILITIES | | | | | | |
| Amounts due to banks | 6,378,436 | 2,356,429 | 4,022,007 | 170.7 | 14.0 | 5.4 |
| Financial liabilities held-for-trading | 4,196,896 | 5,846,404 | (1,649,508) | (28.2) | 9.2 | 13.4 |
| Hedging derivatives | 24,710 | - | 24,710 | - | 0.1 | - |
| Amounts due to customers | 26,568,765 | 26,852,165 | (283,400) | (1.1) | 58.6 | 61.8 |
| Provisions | 89,284 | 28,656 | 60,628 | 211.6 | 0.2 | 0.1 |
| Liabilities due to current income tax | 84 | 55,343 | (55,259) | (99.8) | - | 0.1 |
| Other liabilities | 832,950 | 978,351 | (145,401) | (14.9) | 1.8 | 2.2 |
| TOTAL LIABILITIES | 38,091,125 | 36,117,348 | 1,973,777 | 5.5 | 83.9 | 83.0 |
| EQUITY | 7,307,264 | 7,391,415 | (84,151) | (1.1) | 16.1 | 17.0 |
| TOTAL LIABILITIES AND EQUITY | 45,398,389 | 43,508,763 | 1,889,626 | 4.3 | 100.0 | 100.0 |

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the financial year from 1 January to 31 December 2013

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

CONSOLIDATED INCOME STATEMENT (selected lines)
for the financial year from 1 January to 31 December 2013

| | | | Change | | Structure | |
|---|------------------|------------------|------------------|---------------|-------------|-------------|
| | 2013 PLN '000 | 2012 PLN '000 | PLN '000 | (%) | 2013 (%) | 2012 (%) |
| Interest and similar income | 1,646,332 | 2,076,259 | (429,927) | (20.7) | 52.9 | 60.3 |
| Interest expense and similar charges | (404,180) | (587,978) | 183,798 | (31.3) | 21.4 | 26.7 |
| Net interest income | 1,242,152 | 1,488,281 | (246,129) | (16.5) | | |
| Fee and commission income | 762,772 | 707,240 | 55,532 | 7.9 | 24.5 | 20.6 |
| Fee and commission expense | (120,470) | (108,382) | (12,088) | 11.2 | 6.4 | 4.9 |
| Net fee and commission income | 642,302 | 598,858 | 43,444 | 7.3 | | |
| Dividend income | 4,416 | 6,493 | (2,077) | (32.0) | 0.2 | 0.2 |
| Net income on trading financial instruments and revaluation | 349,000 | 371,993 | (22,993) | (6.2) | 11.2 | 10.8 |
| Net gain on debt investment securities | 305,339 | 279,451 | 25,888 | 9.3 | 9.8 | 8.1 |
| Net gain on capital investment instruments | 1,844 | - | 1,844 | - | 0.1 | - |
| Net gain on hedge accounting | 2,050 | - | 2,050 | - | 0.1 | - |
| Net other operating income | (242) | (18,430) | 18,188 | (98.7) | - | 0.9 |
| General administrative expenses | (1,302,008) | (1,364,951) | 62,943 | (4.6) | 68.8 | 62.0 |
| Depreciation expense | (62,635) | (64,683) | 2,048 | (3.2) | 3.3 | 2.9 |
| Profit/loss on sale of other assets | 1,050 | 84 | 966 | 1,150.0 | - | - |
| Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities | 36,204 | (58,101) | 94,305 | (162.3) | 1.2 | 2.6 |
| Operating profit | 1,219,472 | 1,238,995 | (19,523) | (1.6) | | |
| Share in net profits (losses) of entities valued with equity method | (1,326) | 540 | (1,866) | (345.6) | 0.1 | - |
| Profit before tax | 1,218,146 | 1,239,535 | (21,389) | (1.7) | | |
| Income tax expense | (245,438) | (269,403) | 23,965 | (8.9) | | |
| Net profit | 972,708 | 970,132 | 2,576 | 0.3 | | |
| Total income | 3,109,007 | 3,442,060 | (333,053) | (9.7) | 100.0 | 100.0 |
| Total expense | (1,890,861) | (2,202,525) | 311,664 | (14.1) | 100.0 | 100.0 |
| Profit before tax | 1,218,146 | 1,239,535 | (21,389) | (1.7) | | |

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2013

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the financial year from 1 January to 31 December 2013

| | 2013 | 2012 | Change | |
|--|------------------|------------------|------------------|----------------|
| | PLN '000 | PLN '000 | PLN '000 | (%) |
| Net profit | 972,708 | 970,132 | 2,576 | 0.3 |
| Other comprehensive income that may be reclassified to income statement: | | | | |
| Net valuation of financial assets available-for-sale | (300,754) | 340,085 | (640,839) | (188.4) |
| Foreign exchange differences | 414 | (2,386) | 2,800 | (117.4) |
| Other comprehensive income after tax | (300,340) | 337,699 | (638,039) | (188.9) |
| Total comprehensive income for the period | 672,368 | 1,307,831 | (635,463) | (48.6) |

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2013

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

Selected ratios characterizing the Group's financial position and results

The following ratios characterise the Group's activities, results during the year and its financial position as at the balance sheet date compared with the previous year:

| | 2013 | 2012 |
|--|-------------------|-------------------|
| Profitability ratios | | |
| Return on equity (net profit / average net assets) (1) | 13.2% | 14.0% |
| Return on equity (net profit / average net assets excluding the net profit for the period) (1) | 15.3% | 16.0% |
| Return on assets (net profit / average assets) (1) | 2.2% | 2.3% |
| Interest margin (interest income / average working assets) – (interest expense / average interest-bearing liabilities) (1) (3) | 2.9% | 3.5% |
| Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (1) (3) | 4.0% | 5.2% |
| C/I ratio (general administrative expenses and depreciation expense / profit/loss on banking activities) (2) | 53.6% | 52.4% |
| Cost of borrowings (interest expense / average interest-bearing liabilities) (1) | 1.1% | 1.7% |
| | 31.12.2013 | 31.12.2012 |
| Asset quality ratios | | |
| Interest-bearing assets to total assets (3) | 93.4% | 92.9% |
| Impaired loans and advances to customers to gross loans and advances to customers | 7.6% | 8.1% |
| Provision coverage of not impaired loans and advances | 0.6% | 0.7% |
| Provision coverage of impaired loans and advances | 73.0% | 71.9% |
| Other ratios | | |
| Capital adequacy ratio | 17.5% | 18.1% |
| Group's own funds (PLN'000) | 4,908,707 | 5,010,491 |
| Total regulatory capital requirement (PLN'000) | 2,246,769 | 2,220,164 |

- 1) The average balances of balance sheet items were calculated on the basis of the balances of the individual items as at the beginning and the end of the current financial year and the previous financial year.
- 2) The profit on banking activities defined as the operating profit less general administrative expenses, depreciation expense and net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities.
- 3) Interest-bearing assets defined as balances with the central bank (excluding cash), amounts due from banks and from customers and investment securities and derivative instruments.

The above ratios have been calculated on the basis of the consolidated financial statements.

It was not the purpose of the audit to present the Group in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Group's operations and its circumstances.

Our audit did not cover detailed comparative data constituting the basis for calculating the ratios for the previous years.

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2013

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

The consolidated financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 0.7% in the audited year (2.4% in 2012).

The following comments are based on information obtained during the audit of the consolidated financial statements.

The factors described below had a significant impact on the Group's results of operations and on its financial position as at the balance sheet date:

- At the end of the financial year, the Group's total assets amounted to PLN 45,398,389 thousand. During the year total assets increased by PLN 1,889,626 thousand, i.e. by 4.3%.
- The assets were primarily financed by customer deposits. As at 31 December 2013 the amounts due to customers amounted to PLN 26,568,765 thousand and represented 58.6% of total equity and liabilities (a slight decrease compared to the previous year by PLN 283,400 thousand, i.e. by 1.1%). A decrease of amounts due to customers was mainly driven by decrease of other liabilities related to securities sold under repurchase agreements by PLN 2,709,803 thousand. At the same time, deposits from non-financial sector entities increased by PLN 1,989,916 thousand.
- As at the balance sheet date, amounts due to banks amounted to PLN 6,378,436 thousand, which represented an increase by PLN 4,022,007 thousand, i.e. by 170.7% compared to the previous year. This increase was mainly due to an increase of term deposits (by PLN 2,817,781 thousand, i.e. by 523.0%) and amounts receivable as a result of selling securities under repurchase agreements (by PLN 1,230,139 thousand, i.e. by 222.3%).
- Total equity as at 31 December 2013 amounted to PLN 7,307,264 thousand. A decrease of total equity by PLN 84,151 thousand, i.e. by 1.1% compared to the previous year was mainly due to:
 - payment of dividend from profit for 2012 in the amount of PLN 756,519 thousand;
 - decrease of revaluation reserve related mainly to a difference from valuation of financial assets available-for-sale (net) by PLN 300,754 thousand;
 - net profit generated by the Group in the amount of PLN 972,708 thousand in the audited financial year.
- The higher level of financing influenced mainly an increase of debt securities available-for-sale and amounts due from banks (an increase by PLN 2,613,038 thousand, i.e. by 17.4% and by PLN 2,078,026 thousand, i.e. by 142.1% respectively compared to the balance as at the end of 2012).
- As at 31 December 2013, debt securities available for sale amounted to PLN 17,616,041 thousand and represented 38.9% of total assets. An increase of this balance was due to an increase of the Treasury bonds portfolio, as well as of portfolio of bills issued by National Bank of Poland, which as at the end of the audited year increased by PLN 2,031,847 thousand and PLN 1,751,468 thousand respectively. At the same time, the portfolio of bonds issued by other banks decreased by PLN 1,170,277 thousand.

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2013

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

- As at 31 December 2013, financial assets held-for-trading amounted to PLN 5,751,829 thousand and comprised mainly derivative instruments in the amount of PLN 3,531,126 thousand and Treasury bonds in the amount of PLN 2,101,536 thousand. A decrease in financial assets held-for-trading by PLN 1,086,654 thousand, i.e. by 15.9% compared to the previous year was mainly due to a decrease of the derivative instruments valuation (a decrease by PLN 775,302 thousand, i.e. by 18.0%), mainly the Interest Rate Swaps valuation (a decrease by PLN 591,965 thousand, i.e. 16.9%).
- As at the end of the audited year, amounts due from banks amounted to PLN 3,539,927 thousand and increased mainly due to an increase of amounts payable as a result of purchasing securities with repurchase agreement (an increase by PLN 1,076,594 thousand) and an increase in the balance of deposits (an increase by PLN 529,021 thousand).
- As at 31 December 2013, the net balance of amounts due from customers amounted to PLN 15,231,327 thousand, which was a decrease by PLN 990,085 thousand, i.e. by 6.1% compared to the previous year. At the end of 2013, the gross loan portfolio amounted to PLN 16,215,360 thousand and comprised mainly of loans and advances due from the non-financial sector entities in the gross amount of PLN 12,921,969 thousand, purchased receivables in the amount of PLN 1,416,242 thousand, unlisted debt securities in the amount of PLN 718,003 thousand and loans and advances due from the financial sector entities in the gross amount of PLN 487,673 thousand. A decrease of amounts due from customers was mainly due to a decrease of the balance of loans and advances due from the non-financial sector entities by the gross amount of PLN 640,280 thousand, as well as a decrease of the balance of amounts due from the financial sector in the amount of PLN 217,791 thousand.
- The balance of impairment allowances decreased by PLN 146,894 thousand, i.e. by 13.0% and as at 31 December 2013 amounted to PLN 984,033 thousand. This decrease largely resulted from a decrease in the impairment allowances of amounts due from individual customers (a decrease of PLN 124,986 thousand, i.e. by 18.9%), mainly as a result of an improvement of the quality of a loan portfolio. As at 31 December 2013, the share of impaired loans and advances in the total balance of loans and advances decreased by 0.5 pp. and amounted to 7.6%. The coverage ratio of impairment allowances for impaired loans and advances amounted to 73.0% and increased by 1.1 pp. compared to the end of 2012.
- The profit before tax for the audited year amounted to PLN 1,218,146 thousand and was lower than the profit before tax for 2012 by PLN 21,389 thousand, i.e. by 1.7%. The profit before tax comprised mainly of: net interest income of PLN 1,242,152 thousand, net fee and commission income of PLN 642,302 thousand, net income on trading financial instruments and revaluation of PLN 349,000 thousand and net gain on debt investment securities of PLN 305,339 thousand, reduced by general administrative expenses of PLN 1,302,008 thousand.

Translation note:

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III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

- Net interest income amounted to PLN 1,242,152 thousand and decreased by PLN 246,129 thousand, i.e. by 16.5% compared to the previous year. A decrease of the net interest income was due to a decrease of interest income by PLN 429,927 thousand. At the same time, interest expense decreased by PLN 183,798 thousand compared to the previous year. A decrease of interest income was mainly due to a lower interest income from amounts due from customers and debt securities available-for-sale by PLN 217,289 thousand and PLN 175,308 thousand respectively. A decrease of interest income and expense was mainly due to a significant decrease of the interest rate level in 2013.
- Net fee and commission income amounted to PLN 642,302 thousand in the audited year and was higher by PLN 43,444 thousand, i.e. by 7.3% compared to the previous year. This was due to an increase of fee and commission income by PLN 55,532 thousand. At the same time, fee and commission expense increased by PLN 12,088 thousand.
- Net gain on debt investment securities amounted to PLN 305,339 thousand in 2013, which means an increase by PLN 25,888 thousand, i.e. by 9.3% compared to 2012. An improvement of net gain on debt investment securities resulted mainly from advantageous conditions on domestic debt market.
- General administrative expenses amounted to PLN 1,302,008 thousand in the audited year (including administrative expenses which amounted to PLN 612,383 thousand) and decreased by PLN 62,943 thousand, i.e. by 4.6% compared to the previous year. A decrease of general administrative expenses was mainly due to a decrease of the remuneration costs (a decrease by PLN 32,848 thousand, i.e. by 6.2%) and the advertising and marketing costs (a decrease by PLN 26,054 thousand, i.e. by 52.8%). General administrative expenses include the costs of restructuring of the retail branch network, which resulted in creating by the Group a restructuring provisions of PLN 64,913 thousand in 2013.
- Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities was positive and amounted to PLN 36,204 thousand (in 2012 it was negative and amounted to PLN 58,101 thousand). This change comprised mainly of change in result from net impairment allowances of amounts due from customers in the amount of PLN 75,430 thousand and reversal of impairment write-offs related to recoveries on sale of debt from retail portfolio in the amount of PLN 33,994 thousand.
- As a result, in the audited year the Group generated a net profit of PLN 972,708 thousand, which was higher by PLN 2,576 thousand, i.e. by 0.3% compared to the previous year.
- At the end of the audited year, the capital adequacy ratio amounted to 17.5% (at the end of 2012: 18.1%).

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2013

IV. The independent registered auditor's statements

- a. The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The Group has up-to-date documentation of its accounting policies, approved by the Parent Company's Management Board. The Parent Company's accounting policies were tailored to the Group's needs and ensured the recognition of all events having a material effect on the assessment of its financial position and results, taking into consideration the prudence principle.
- d. The consolidation of equity items was carried out properly in all material respects.
- e. The closing balances as at the end of the previous year were correctly brought forward as the opening balances of the current financial year in all material respects.
- f. The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- g. The elimination of unrealized gains/losses of consolidated entities included in the book value of assets and in respect of dividend payments was carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- h. The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects, in accordance with IFRS as adopted by the European Union.
- i. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.
- j. The consolidated financial statements of the Group as at and for the year ended 31 December 2012 were approved by Resolution No. 8/2013 passed by the General Shareholders' Meeting of the Parent Company on 20 June 2013 and filed with the National Court Register in Warsaw on 25 June 2013.
- k. The consolidated financial statements for the previous year were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. The registered auditor issued an unqualified opinion.

Translation note:

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2013

IV. The independent registered auditor's statements (cont.)

- l. We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.
- m. The total capital requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 2,246,769 thousand as at the balance sheet date. The capital adequacy ratio as at 31 December 2013 amounted to 17.5%. As at the balance sheet date, the Group complied with the prudence principle in all material respects.
- n. The notes to the consolidated financial statements present all the significant information in accordance with IFRS as adopted by the European Union.
- o. The information in the Group Directors' Report for the year from 1 January to 31 December 2013 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a Member State (Journal of Laws of 2014, item 133) and is consistent with that presented in the consolidated financial statements.

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2013

V. Final information and comments

This report has been prepared in connection with our audit of the consolidated financial statements of Bank Handlowy w Warszawie S.A. Group having Bank Handlowy w Warszawie S.A., Senatorska 16 Street, Warsaw, as its Parent Company. The consolidated financial statements were signed by the Parent Company's Management Board on 13 March 2014.

This report should be read together with the Independent Registered Auditor's unqualified Opinion to the General Shareholders' Meeting and the Supervisory Board of Bank Handlowy w Warszawie S.A. dated 13 March 2014, concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Adam Celiński

Group Registered Auditor, Key Registered Auditor
No. 90033

Warsaw, 13 March 2014

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