

Warsaw, August 13, 2015

Subject: Preliminary consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the first half of 2015

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 “the Bank”, “Citi Handlowy”) hereby presents the preliminary consolidated data of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter “the Group”) for H1, 2015.

For the first six months of 2015 the Group posted a consolidated net profit of PLN 367.2 million, down by PLN 146.7 million (or 28.5%) compared to H1, 2014. The H1, 2015 consolidated profit before tax of PLN 459.0 million decreased by PLN 168.5 million (or 26.8%) as compared to the corresponding period of the previous year.

The revenue of the Group amounted to PLN 1 088.8 million, down by PLN 182.9 million (or 14.4%) compared to the H1, 2014 revenue, primarily due to the decline in the net interest income as a result of further interest rates cuts and lower treasury result.

In H1, 2015 the Group consistently continued its expense control policy as a result of which operating costs, general administrative expenses and depreciation dropped by PLN 18.4 million (or 2.9%).

In H1, 2015 net impairment losses amounted to PLN -5.5 million compared to PLN -2.0 million in the corresponding period of the previous year.

In H1, 2015 Citi Handlowy maintained a strong capital base, with its CAR at the level of 16.6%. At the same time the Bank’s NPL ratio further dropped to 4.7% as of the end of H1, 2015.

Consolidated income statement

PLN '000	01.01 – 30.06.2015	01.01 - 30.06.2014	Change	
			PLN '000	%
Net interest income	496,786	595,204	(98,418)	(16.5%)
Net fee and commission income	310,032	324,127	(14,095)	(4.3%)
Dividend income	7,177	5,682	1,495	26.3%
Net income on trade financial instruments and revaluation	157,626	231,325	(73,699)	(31.9%)
Net gain on debt investment securities	118,800	105,288	13,512	12.8%
Net gain on investment equity instruments	-	2,855	(2,855)	(100.0%)
Net gain on hedge accounting	910	(709)	1,619	(228.3%)
Net other operating income	(2,567)	7,867	(10,434)	(132.6%)
Total income	1,088,764	1,271,639	(182,875)	(14.4%)
General administrative expenses and depreciation	(624,375)	(642,766)	18,391	(2.9%)
Profit/(loss) on sale of other assets	72	297	(225)	(75.8%)
Net impairment losses on financial assets and provisions for financial liabilities and guarantees granted	(5,484)	(1,997)	(3,487)	174.6%
Share in net profits (losses) of entities valued at equity method	48	313	(265)	(84.7%)
Profit before tax	459,025	627,486	(168,461)	(26.8%)
Corporate income tax	(91,808)	(113,587)	21,779	(19.2%)
Net profit	367,217	513,899	(146,682)	(28.5%)

The main determinants of the net operating income of the Group in H1, 2015 were the following:

- net interest income of PLN 496.8 million compared to PLN 595.2 million in H1, 2014 – decrease of PLN 98.4 million (or 16.5%), due to the reduction in interest rates to a historically low level. Consequently, interest income from amounts due from the non-financial sector customers

declined by PLN 100.7 million (or 21.2%), which was partially offset by a lower level of interest expense on amounts due to non-financial sector entities by PLN 42.9 million (or 42.2%) and on amounts due to financial sector entities by PLN 21.3 million (or 46.1%). A significant drop in interest income was also recorded in the case of debt securities available-for-sale by PLN 67.9 million (or 34.2%), while interest income from debt securities held-for-trading went up by PLN 10.9 million (or 27.1%);

Net interest income

PLN '000	01.01. - 30.06.2015	01.01. - 30.06.2014	Change	
			PLN '000	%
Interest and similar income from:				
Balances with the Central Bank	8,335	13,120	(4,785)	(36.5%)
Amounts due from banks	21,922	29,081	(7,159)	(24.6%)
Amounts due from customers, including:	387,532	486,271	(98,739)	(20.3%)
Financial sector entities	12,877	10,891	1,986	18.2%
Non-financial sector entities, including:	374,655	475,380	(100,725)	(21.2%)
Credit cards	120,501	146,001	(25,500)	(17.5%)
Debt securities available-for-sale	130,670	198,534	(67,864)	(34.2%)
Debt securities held-for-trading	51,209	40,276	10,933	27.1%
Total	599,668	767,282	(167,614)	(21.8%)
Interest expense and similar charges on:				
Amounts due to banks	(14,501)	(20,051)	5,550	(27.7%)
Amounts due to financial sector entities	(24,877)	(46,185)	21,308	(46.1%)
Amounts due to non-financial sector entities	(58,576)	(101,429)	42,853	(42.2%)
Loans and advances received	(978)	(1,771)	793	(44.8%)
Derivative instruments in hedge accounting	(3,950)	(2,642)	(1,308)	49.5%
Total	(102,882)	(172,078)	69,196	(40.2%)
Net interest income	496,786	595,204	(98,418)	(16.5%)

- net fee and commission income of PLN 310.0 million versus PLN 324.1 million in H1, 2014 – decrease of PLN 14.1 million (or 4.3%), primarily due to lower fee and commission income from payment and credit cards in connection with the reduced interchange fee (to 0.2% - 0.3%) as of January 29, 2015, partially offset by increased sales of credit cards related installment products and lower costs due to the rationalization of the product offer in this area. In the area of the Markets business the fee and commission income from brokerage operations decreased by PLN 10.2 million (or 38.2%), as a result of the drop in the turnover on the WSE, while fee and commission income from custody services increased by PLN 7.3 million (or 13.5%);

Net fee and commission income

PLN '000	01.01. - 30.06.2015	01.01. - 30.06.2014	Change	
			PLN '000	%
Fee and commission income				
Insurance and investment products	65,239	68,926	(3,687)	(5.3%)
Payment and credit cards	88,133	121,024	(32,891)	(27.2%)
Payment orders	56,432	54,874	1,558	2.8%
Custody services	61,625	54,306	7,319	13.5%
Cash loans	1,044	1,990	(946)	(47.5%)
Brokerage operations	24,799	38,257	(13,458)	(35.2%)
Cash management services	13,691	13,081	610	4.7%
Guarantees granted	7,385	7,540	(155)	(2.1%)
Financial liabilities granted	2,937	2,932	5	0.2%
Other	27,491	15,916	11,575	72.7%
Total	348,776	378,846	(30,070)	(7.9%)

PLN '000	01.01 – 30.06.2015	01.01 - 30.06.2014	Change	
			PLN '000	%
Fee and commission expense				
Payment and credit cards	(12,102)	(25,928)	13,826	(53.3%)
Brokerage operations	(8,250)	(11,492)	3,242	(28.2%)
Fees paid to the National Depository for Securities (KDPW)	(9,754)	(10,190)	436	(4.3%)
Brokerage fees	(2,533)	(1,999)	(534)	26.7%
Other	(6,105)	(5,110)	(995)	19.5%
Total	(38,744)	(54,719)	15,975	(29.2%)
Net fee and commission income				
Insurance and investment products	65,239	68,926	(3,687)	(5.3%)
Payment and credit cards	76,031	95,096	(19,065)	(20.0%)
Payment orders	56,432	54,874	1,558	2.8%
Custody services	61,625	54,306	7,319	13.5%
Cash loans	1,044	1,990	(946)	(47.5%)
Brokerage operations	16,549	26,765	(10,216)	(38.2%)
Cash management services	13,691	13,081	610	4.7%
Guarantees granted	7,385	7,540	(155)	(2.1%)
Financial liabilities granted	2,937	2,932	5	0.2%
Fees paid to the National Depository for Securities (KDPW)	(9,754)	(10,190)	436	(4.3%)
Brokerage fees	(2,533)	(1,999)	(534)	26.7%
Other	21,386	10,806	10,580	97.9%
Net fee and commission income	310,032	324,127	(14,095)	(4.3%)

- net income on trade financial instruments and revaluation of PLN 157.6 million – down by PLN 73.7 million YoY primarily due to lower result from the activity in the interbank market;
- net gain on investment debt securities of PLN 118.8 million – up by PLN 13.5 million compared to the corresponding period of the previous year;
- general administrative and depreciation expenses of PLN 624.4 million versus PLN 642.8 million in the corresponding period of the previous year – a decrease of PLN 18.4 million (or 2.9%) primarily as a consequence of lower staff expenses by PLN 10.9 million (or 3.6%) due to reduced headcount. Additionally, general administrative expenses went down by PLN 6.4 million, primarily due to lower costs of cooperation with external partners rendering services for the Bank by PLN 19.4 million (or 73.7%), partially offset by increased spending on technology in the amount of PLN 11.8 million (or 13.4%);

General administrative expenses and depreciation expense

PLN '000	01.01 – 30.06.2015	01.01 - 30.06.2014	Change	
			PLN '000	%
Staff expenses				
Remuneration costs	(294,187)	(305,070)	10,883	(3.6%)
Bonuses and rewards	(205,959)	(212,936)	6,977	(3.3%)
Social security costs	(49,430)	(52,409)	2,979	(5.7%)
Social security costs	(38,798)	(39,725)	927	(2.3%)
Administrative expenses	(295,075)	(301,512)	6,437	(2.1%)
Telecommunication fees and hardware purchase costs	(99,758)	(87,970)	(11,788)	13.4%
Costs of external services, including advisory, audit and consulting	(36,158)	(34,670)	(1,488)	4.3%
Building maintenance and rent costs	(39,610)	(45,919)	6,309	(13.7%)
Advertising and Marketing costs	(8,921)	(12,559)	3,638	(29.0%)
Cash management services, clearing house (KIR) services and other transactional costs	(21,196)	(23,199)	2,003	(8.6%)
Costs of external services concerning distribution of banking products	(6,894)	(26,256)	19,362	(73.7%)
Postal services, office supplies and printmaking costs	(5,778)	(7,037)	1,259	(17.9%)
Training and education costs	(1,295)	(1,909)	614	(32.2%)

PLN '000	01.01 – 30.06.2015	01.01 - 30.06.2014	Change	
			PLN '000	%
Banking supervision costs	(5,069)	(4,838)	(231)	4.8%
Other costs	(70,396)	(57,155)	(13,241)	23.2%
Depreciation/amortization of tangible and intangible assets	(35,113)	(36,184)	1,071	(3.0%)
General administrative expenses and depreciation expense in total	(624,375)	(642,766)	18,391	(2.9%)

- Net impairment losses of PLN -5.5 million compared to PLN -2.0 million in H1, 2014. The Institutional Banking Segment reported a decline in net impairment losses by PLN 0.9 million, due to, among others, improved quality of loan portfolio. The Consumer Banking Segment reported an increase in net impairment losses by PLN 4.4 million, primarily due to individual clients' exposures increase;

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

PLN '000	01.01 – 30.06.2015	01.01 - 30.06.2014	Change	
			PLN '000	%
Net impairment write-downs of financial assets				
Impairment write-downs				
Amounts due from banks	(1,026)	(1,176)	150	(12.8%)
Amounts due from customers	(99,983)	(109,547)	9,564	(8.7%)
Amounts due from matured derivative transactions	(442)	(284)	(158)	55.6%
Other	-	(3,721)	3,721	(100.0%)
	(101,451)	(114,728)	13,277	(11.6%)
Reversals of impairment write-downs				
Amounts due from banks	3,530	1,696	1,834	108.1%
Amounts due from customers	88,263	108,967	(20,704)	(19.0%)
Amounts due from matured derivative transactions	75	521	(446)	(85.6%)
Recovers from sold debts	161	412	(251)	(60.9%)
Others	608	-	608	-
	92,637	111,596	(18,959)	(17.0%)
Net impairment losses on financial assets	(8,814)	(3,132)	(5,682)	181.4%
Creation of provisions for financial liabilities and guarantees granted	(14,955)	(13,750)	(1,205)	8.8%
Release of provisions for financial liabilities and guarantees granted	18,285	14,885	3,400	22.8%
Net provisions for financial liabilities and guarantees granted	3,330	1,135	2,195	193.4%
Net impairment losses on financial assets and provisions for financial liabilities and guarantees granted	(5,484)	(1,997)	(3,487)	174.6%

Consolidated statement of comprehensive income

	01.01-30.06.2015	01.01-30.06.2014
PLN'000		
Net profit	367,217	513,899
Other comprehensive income, that might be subsequently reclassified to profit or loss:		
Net valuation of financial assets available-for-sale	(222,455)	45,927
Exchange rates differences	(88)	102
Other comprehensive income after tax	(222,543)	46,029
Total comprehensive income	144,674	559,928

Consolidated statement of financial position

As of June 30, 2015, total assets of the Group amounted to PLN 51,661.0 million, up by 3.6% compared to the end of 2014.

The change was predominantly due to the following events:

- amounts due from customers increased by PLN 0.7 billion (or 3.9%) mainly due to increased credit activity in the non-financial sector, (PLN +0.7 billion, or 4.2%). Exposures in non-financial sector increased both on the side of institutional customers (PLN 0.6 billion, or 5.7%; increase mainly in CCB segment) and retail customers (PLN 0.1 billion, or 1.7%; increase in unsecured loans and mortgages);
- debt securities available-for-sale portfolio decreased by PLN 1.3 billion (or 8.8%), mainly as a result of the maturity of the National Bank of Poland bills;
- financial assets held-for-trading decreased by PLN 3.1 billion (or 24.2%), mainly as a result of reduced position in Treasury bonds;
- amounts due from banks increased by PLN 1.6 billion (or 75.4%), mainly due to reversed repo transactions;
- cash and balances with the Central Bank increased by PLN 3.8 billion (or 251.2%), due to the increase of central bank account, mainly in order to maintain mandatory reserve level.

The biggest change in the liabilities was recorded in amounts due to banks, which increased by PLN 4.3 billion (or 84.5%) compared to the end of 2014. Customers' deposit balances declined by PLN 3.6 billion (or 12.1%), mainly due to the high base as of the end of 2014 in current accounts of institutional clients, including budget units. At the same time, for another half-year in a row, individual customers' deposits increased by PLN 0.4 billion (or 5.9%) versus the end of 2014.

Consolidated statement of financial position

PLN '000	State as at		Change	
	30.06.2015	31.12.2014	PLN '000	%
ASSETS				
Cash and balances with the Central Bank	5,347,946	1,522,949	3,824,997	251.2%
Amounts due from banks	3,622,715	2,065,685	1,557,030	75.4%
Financial assets held-for-trading	9,645,331	12,721,573	(3,076,242)	(24.2%)
Derivative hedging instruments	41,311	-	41,311	-
Debt securities available-for-sale	13,161,858	14,435,099	(1,273,241)	(8.8%)
Capital investments valued at equity method	7,753	7,765	(12)	(0.2%)
Equity investments available for sale	8,257	8,211	46	0.6%
Amounts due from customers	17,429,221	16,770,482	658,739	3.9%
Tangible fixed assets	363,926	366,857	(2,931)	(0.8%)
Intangible assets	1,381,209	1,387,745	(6,536)	(0.5%)
Income tax assets	4,044	13,255	(9,211)	(69.5%)
Deferred income tax asset	222,945	157,319	65,626	41.7%
Other assets	422,579	384,612	37,967	9.9%
Fixed assets held-for-sale	1,928	2,113	(185)	(8.8%)
Total assets	51,661,023	49,843,665	1,817,358	3.6%
LIABILITIES				
Due to banks	9,452,169	5,122,576	4,329,593	84.5%
Financial liabilities held-for-trading	7,569,403	6,770,922	798,481	11.8%
Hedging derivatives	593	-	593	-
Due to customers	26,056,387	29,632,598	(3,576,211)	(12.1%)
Provisions	25,295	26,409	(1,114)	(4.2%)
Current income tax liabilities	45,978	186	45,792	-
Other liabilities	1,926,681	880,214	1,046,467	118.9%
Total liabilities	45,076,506	42,432,905	2,643,601	6.2%

PLN '000	State as at		Change	
	30.06.2015	31.12.2014	PLN '000	%
EQUITY				
Share capital	522,638	522,638	-	-
Share premium	3,001,525	3,000,298	1,227	0.0%
Revaluation reserve	(169,582)	52,873	(222,455)	(420.7%)
Other reserves	2,868,541	2,893,523	(24,982)	(0.9%)
Retained earnings	361,395	941,428	(580,033)	(61.6%)
Total equity	6,584,517	7,410,760	(826,243)	(11.1%)
Total liabilities and equity	51,661,023	49,843,665	1,817,358	3.6%

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

PLN '000	30.06.2015	31.12.2014	Change	
			PLN '000	%
Not at risk of impairment, including:	17,295,169	16,630,827	664,342	4.0%
non-financial sector	16,274,413	15,609,377	665,036	4.3%
institutional customers*	10,374,750	9,811,191	563,559	5.7%
individual customers	5,899,663	5,798,186	101,477	1.8%
At risk of impairment, including:	846,473	847,540	(1,067)	(0.1%)
non-financial sector	829,337	828,544	793	0.1%
institutional customers*	346,027	346,564	(537)	(0.2%)
individual customers	483,310	481,980	1,330	0.3%
Dues related to matured derivative transactions	81,547	91,011	(9,464)	(10.4%)
Total gross receivables from customers, including:	18,223,189	17,569,378	653,811	3.7%
non-financial sector	17,103,750	16,437,921	665,829	4.1%
institutional customers*	10,720,777	10,157,755	563,022	5.5%
individual customers	6,382,973	6,280,166	102,807	1.6%
Impairment, including:	(793,968)	(798,896)	4,928	(0.6%)
Dues related to matured derivative transactions	(73,200)	(81,134)	7,934	(9.8%)
Total net receivables from customers	17,429,221	16,770,482	658,739	3.9%
Provision coverage ratio**	85.2%	84.7%		
institutional customers*	87.5%	87.5%		
individual customers	82.9%	82.0%		
Non-performing loans ratio (NPL)	4.7%	4.9%		

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

**Ratio calculated with IBNR impairment

Customer net receivables

PLN '000	30.06.2015	31.12.2014	Change	
			PLN '000	%
Receivables from financial sector entities	1,020,642	1,021,364	(722)	(0,1%)
Receivables from non-financial sector entities including:	16,408,579	15,749,118	659,461	4,2%
Institutional customers*	10,426,274	9,864,270	562,004	5,7%
Individual customers, including:	5,982,305	5,884,848	97,457	1,7%
Unsecured receivables	4,702,896	4,648,480	54,416	1,2%
Mortgage loans	1,279,409	1,236,368	43,041	3,5%
Total net customer receivables	17,429,221	16,770,482	658,739	3,9%

* Institutional 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	30.06.2015	31.12.2014	30.06.2014	Change YTD		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	4,702,896	4,648,482	4,502,548	54,414	1.2%	200,348	4.4%
Credit cards	2,084,171	2,105,550	2,064,394	(21,379)	(1.0%)	19,777	1.0%
Cash loans	2,558,121	2,482,226	2,358,723	75,895	3.1%	199,398	8.5%
Other unsecured receivables	60,604	60,706	79,431	(102)	(0.2%)	(18,827)	(23.7%)
Mortgage loans	1,279,409	1,236,368	1,142,686	43,041	3.5%	136,723	12.0%
Total net individual clients' receivables	5,982,305	5,884,850	5,645,234	97,455	1.7%	337,071	6.0%

Customer liabilities

PLN '000	30.06.2015	31.12.2014	Change	
			PLN '000	%
Current accounts of:	15,970,297	19,537,444	(3,567,147)	(18.3%)
financial sector entities	277,655	238,351	39,304	16.5%
non-financial sector entities, including:	15,692,642	19,299,093	(3,606,451)	(18.7%)
corporate customers*, including:	8,941,095	12,926,331	(3,985,236)	(30.8%)
budgetary units	671,389	4,332,218	(3,660,829)	(84.5%)
individual customers	6,751,547	6,372,762	378,785	5.9%
Term deposits from:	9,746,405	9,962,504	(216,099)	(2.2%)
financial sector entities	3,151,758	2,877,084	274,674	9.5%
non-financial sector entities, including:	6,594,647	7,085,420	(490,773)	(6.9%)
corporate customers*, including:	5,378,389	5,796,189	(417,800)	(7.2%)
budgetary units	765,865	127,354	638,511	501.4%
individual customers	1,216,258	1,289,231	(72,973)	(5.7%)
Total customers deposits	25,716,702	29,499,948	(3,783,246)	(12.8%)
Other liabilities to customers	339,685	132,650	207,035	156.1%
Total liabilities towards customers	26,056,387	29,632,598	(3,576,211)	(12.1%)

* Institutional 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 first half of 2015, the key financial ratios were as follows:

Ratios	01.04 – 30.06.2015	01.04 – 30.06.2014
ROE	12.4%	13.1%
ROA	1.6%	1.8%
Cost/Income	57%	51%
Interest margin on total assets	2.1%	2.6%
Interest margin on interest-bearing assets	2.6%	3.0%
Non-financial sector loans/ Non-financial sector deposits	74%	74%
Capital adequacy ratio	16.6%	17.0%

Employment in the Group

In full time job equivalents (FTE)	01.04 – 30.06.2015	01.04 – 30.06.2014	Change	
			FTEs	%
Average employment in the period	4,193	4,424	(231)	(5.2%)
Employment at the end of quarter	4,186	4,332	(146)	(3.4%)

Consolidated income statement of the Group by business segments

For the period	01.04 – 30.06.2015			01.04 -30.06.2014		
<i>PLN '000</i>	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	216,478	280,308	496,786	268,660	326,544	595,204
Net fee and commission income	137,556	172,476	310,032	142,020	182,107	324,127
Dividend income	1,462	5,715	7,177	2,114	3,568	5,682
Net income on trade financial instruments and revaluation	142,329	15,297	157,626	215,920	15,405	231,325
Net gain on debt investment securities	118,800	-	118,800	105,288	-	105,288
Net gain on capital investment instruments	-	-	-	2,855	-	2,855
Net loss on hedge accounting	910	-	910	(709)	-	(709)
Net other operating income	6,821	(9,388)	(2,567)	19,913	(12,046)	7,867
General administrative expenses	(258,811)	(330,451)	(589,262)	(265,517)	(341,065)	(606,582)
Depreciation and amortization	(11,675)	(23,438)	(35,113)	(12,055)	(24,129)	(36,184)
Profit on sale of other assets	7	65	72	296	1	297
Net impairment due to financial assets and provisions value for granted financial and guarantees liabilities	(1,026)	(4,458)	(5,484)	(1,967)	(30)	(1,997)
Operating income	352,851	106,126	458,977	476,818	150,355	627,173
Share in net profits (losses) of entities valued at equity method	48	-	48	313	-	313
Profit before tax	352,899	106,126	459,025	477,131	150,355	627,486
Income tax expense			(91,808)			(113,587)
Net profit			367,217			513,899