



## **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 2014, showing total assets and total equity and liabilities of PLN 49,843,665 thousand, the consolidated income statement for the year from 1 January to 31 December 2014, showing a net profit of PLN 947,312 thousand, the consolidated statement of comprehensive income for the year from 1 January to 31 December 2014, showing total comprehensive income of PLN 1,038,094 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.

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.

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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.)**

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 2014 and of the results of its operations for the year from 1 January to 31 December 2014, 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 2014 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) 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 2015

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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 2014**

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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 2014**

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

**This report contains 17 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 2014**

**I. General information about the Group**

- a. Bank Handlowy w Warszawie Spółka Akcyjna (“Bank”, “the Parent Company”) with its seat in Warsaw, Senatorska 16 Street, is the parent company of the 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 2014 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 2014, 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
	<b>130,659,600</b>	<b>522,638</b>		<b>100.0</b>

- 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,
- investing 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 2014**

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**I. General information about the Group (cont.)**

g. As at 31 December 2014, the 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 2014
Handlowy-Leasing Sp. z o.o.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2014
Dom Maklerski Banku Handlowego S.A.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2014
PPH Spomasz Sp. z o.o. in liquidation	Subsidiary (100.00%)	Full	Not audited	-	31 December 2014
Handlowy Investments S.A.	Subsidiary (100.00%)	Full	Auditor of the financial statements yet to be chosen by the Entity	n/a	28 February 2015*
Handlowy-Inwestycje Sp. z o.o.	Subsidiary (100.00%)	Equity	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2014

\* 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 2014**

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**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
- Witold Zieliński Vice President of the Management Board
- Barbara Sobala Vice President of the Management Board
- Maciej Kropidłowski Vice President of the Management Board from 19 March 2014
- Misbah Ur-Rahman-Shah Vice President of the Management Board to 18 March 2014
- Iwona Dudzińska Member of the Management Board
- Czesław Piasek Member of the Management Board from 20 May 2014

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 International Financial Report Standards (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 2014**

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**II. Information about the audit**

- a. The audit of the consolidated financial statements for the year from 1 January to 31 December 2014 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 9/V/2014 of the Supervisory Board of Bank Handlowy w Warszawie S.A. dated 19 March 2014 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 6 May 2014 in the following periods:
  - interim audit from 3 November 2014 to 31 December 2014;
  - final audit from 2 January 2015 to 13 March 2015.



**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 2014**

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2014 (selected lines)**

			Change		Structure	
	31.12.2014 PLN '000	31.12.2013 PLN '000	PLN '000	(%)	31.12.2014 (%)	31.12.2013 (%)
<b>ASSETS</b>						
Cash and balances with Central Bank	1,522,949	778,464	744,485	95.6	3.1	1.7
Amounts due from banks	2,065,685	3,539,927	(1,474,242)	(41.6)	4.1	7.8
Financial assets held-for-trading	12,721,573	5,751,829	6,969,744	121.2	25.5	12.7
Debt securities available-for-sale	14,435,099	17,616,041	(3,180,942)	(18.1)	29.0	38.9
Equity investments valued at equity method	7,765	7,814	(49)	(0.6)	-	-
Other equity investments available-for-sale	8,211	15,280	(7,069)	(46.3)	-	-
Amounts due from customers	16,770,482	15,231,327	1,539,155	10.1	33.7	33.6
Tangible fixed assets	366,857	384,581	(17,724)	(4.6)	0.7	0.8
Intangible assets	1,387,745	1,417,363	(29,618)	(2.1)	2.8	3.1
Receivables due to current income tax	13,255	80,854	(67,599)	(83.6)	-	0.2
Asset due to deferred income tax	157,319	203,132	(45,813)	(22.6)	0.3	0.4
Other assets	384,612	359,039	25,573	7.1	0.8	0.8
Non-current assets held-for-sale	2,113	12,738	(10,625)	(83.4)	-	-
<b>TOTAL ASSETS</b>	<b>49,843,665</b>	<b>45,398,389</b>	<b>4,445,276</b>	<b>9.8</b>	<b>100.0</b>	<b>100.0</b>

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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 2014**

**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 2014 (selected lines) (cont.)**

			Change		Structure	
	31.12.2014 PLN '000	31.12.2013 PLN '000	PLN '000	(%)	31.12.2014 (%)	31.12.2013 (%)
<b>LIABILITIES</b>						
Amounts due to banks	5,122,576	6,378,436	(1,255,860)	(19.7)	10.3	14.0
Financial liabilities held-for-trading	6,770,922	4,196,896	2,574,026	61.3	13.5	9.2
Hedging derivatives	-	24,710	(24,710)	(100.0)	-	0.1
Amounts due to customers	29,632,598	26,568,765	3,063,833	11.5	59.4	58.6
Provisions	26,409	89,284	(62,875)	(70.4)	0.1	0.2
Liabilities due to current income tax	186	84	102	121.4	-	-
Other liabilities	880,214	832,950	47,264	5.7	1.8	1.8
<b>TOTAL LIABILITIES</b>	<b>42,432,905</b>	<b>38,091,125</b>	<b>4,341,780</b>	<b>11.4</b>	<b>85.1</b>	<b>83.9</b>
<b>EQUITY</b>	<b>7,410,760</b>	<b>7,307,264</b>	<b>103,496</b>	<b>1.4</b>	<b>14.9</b>	<b>16.1</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>49,843,665</b>	<b>45,398,389</b>	<b>4,445,276</b>	<b>9.8</b>	<b>100.0</b>	<b>100.0</b>

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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 2014**

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

**CONSOLIDATED INCOME STATEMENT**  
**for the financial year from 1 January to 31 December 2014 (selected lines)**

			Change		Structure	
	2014 PLN '000	2013 PLN '000	PLN '000	(%)	2014 (%)	2013 (%)
Interest and similar income	1,489,071	1,646,332	(157,261)	(9.6)	51.8	52.9
Interest expense and similar charges	(325,128)	(404,180)	79,052	(19.6)	19.1	21.4
<b>Net interest income</b>	<b>1,163,943</b>	<b>1,242,152</b>	<b>(78,209)</b>	<b>(6.3)</b>		
Fee and commission income	726,196	762,772	(36,576)	(4.8)	25.3	24.5
Fee and commission expense	(107,265)	(120,470)	13,205	(11.0)	6.3	6.4
<b>Net fee and commission income</b>	<b>618,931</b>	<b>642,302</b>	<b>(23,371)</b>	<b>(3.6)</b>		
Dividend income	5,783	4,416	1,367	31.0	0.2	0.2
Net income on trading financial instruments and revaluation	382,160	349,000	33,160	9.5	13.3	11.2
Net gain on debt investment securities	229,922	305,339	(75,417)	(24.7)	8.0	9.8
Net gain on capital investment instruments	6,429	1,844	4,585	248.6	0.2	0.1
Net gain on hedge accounting	(379)	2,050	(2,429)	(118.5)	-	0.1
Net other operating income	10,585	(242)	10,827	(>100.0)	0.4	-
General administrative expenses	(1,202,516)	(1,302,008)	99,492	(7.6)	70.4	68.8
Depreciation expense	(71,364)	(62,635)	(8,729)	13.9	4.2	3.3
Profit/loss on sale of other assets	6,384	1,050	5,334	508.0	0.2	-
Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities	17,804	36,204	(18,400)	(50.8)	0.6	1.2
<b>Operating profit</b>	<b>1,167,682</b>	<b>1,219,472</b>	<b>(51,790)</b>	<b>(4.2)</b>		
Share in net profits (losses) of entities valued with equity method	28	(1,326)	1,354	(102.1)	-	0.1
<b>Profit before tax</b>	<b>1,167,710</b>	<b>1,218,146</b>	<b>(50,436)</b>	<b>(4.1)</b>		
Income tax expense	(220,398)	(245,438)	25,040	(10.2)		
<b>Net profit</b>	<b>947,312</b>	<b>972,708</b>	<b>(25,396)</b>	<b>(2.6)</b>		
Total income	2,874,362	3,109,007	(234,645)	(7.5)	100.0	100.0
Total expense	(1,706,652)	(1,890,861)	184,209	(9.7)	100.0	100.0
<b>Profit before tax</b>	<b>1,167,710</b>	<b>1,218,146</b>	<b>(50,436)</b>	<b>(4.1)</b>		

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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 2014**

**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 2014**

			Change	
	2014 PLN '000	2013 PLN '000	PLN '000	(%)
<b>Net profit</b>	<b>947,312</b>	<b>972,708</b>	<b>(25,396)</b>	<b>(2,6)</b>
Other comprehensive income that may be reclassified to income statement:				
Net valuation of financial assets available-for-sale	95,836	(300,754)	396,590	(131.9)
Foreign exchange differences	844	414	430	103.9
Other comprehensive income that may not be reclassified to income statement:				
Net actuarial losses on specific services program valuation	(5,898)	-	(5,898)	-
<b>Other comprehensive income after tax</b>	<b>90,782</b>	<b>(300,340)</b>	<b>391,122</b>	<b>(130.2)</b>
<b>Total comprehensive income for the period</b>	<b>1,038,094</b>	<b>672,368</b>	<b>365,726</b>	<b>54.4</b>

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**Bank Handlowy w Warszawie S.A. Group**  
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**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:

	<b>2014</b>	<b>2013</b>
<b>Profitability ratios</b>		
Return on equity (net profit / average net assets) (1)	12.9%	13.2%
Return on assets (net profit / average assets) (1)	2.0%	2.2%
Interest margin (interest income / average working assets) – (interest expense / average interest-bearing liabilities) (1) (3)	2.5%	2.9%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (1) (3)	3.3%	4.0%
C/I ratio (general administrative expenses and depreciation expense / profit/loss on banking activities) (2)	52.6%	53.6%
Cost of borrowings (interest expense / average interest-bearing liabilities) (1)	0.8%	1.1%
	<b>31.12.2014</b>	<b>31.12.2013</b>
<b>Asset quality ratios</b>		
Impaired loans and advances to customers to gross loans and advances to customers	5.3%	7.6%
Provision coverage of not impaired loans and advances	0.4%	0.6%
Provision coverage of impaired loans and advances	77.5%	73.0%
<b>Other ratios</b>		
Common Equity Tier I Capital ratio	17.5%	17.5%
Common Equity Tier I (PLN'000)	4,944,496	4,908,707
Total regulatory capital requirement (PLN'000)	2,256,721	2,246,769

- 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.
- 4) Ratio calculated according to the current at a given reporting moment rules, appropriately: as of 31 December 2014 according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012; as of 31 December 2013 calculated according to the rules set out in Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 concerning the scope and detailed rules of calculation of capital requirements in respect of particular risks (PFSA Official Journal No. 2, item 11, as amended).

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.

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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 2014**

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**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 deflation. The consumer price index (on a December to December basis) amounted to -1.0% in the audited year (inflation 0.7% in 2013).

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 49,843,665 thousand. During the year total assets increased by PLN 4,445,276 thousand, i.e. by 9.8%.
- The assets were primarily financed by customer deposits. As at 31 December 2014 the amounts due to customers amounted to PLN 29,632,598 thousand and represented 59.4% of total equity and liabilities (an increase compared to the previous year by PLN 3,063,833 thousand, i.e. by 11.5%). An increase of amounts due to customers mainly resulted from increase of deposits from non-financial sector entities by PLN 3,559,667 thousand. At the same time, other liabilities related to securities sold under repurchase agreements decreased by PLN 352,153 thousand.
- As at the balance sheet date, amounts due to banks amounted to PLN 5,122,576 thousand, which represented a decrease by PLN 1,255,860 thousand, i.e. by 19.7% compared to the previous year. This decrease was mainly due to a decrease of term deposits (by PLN 986,291 thousand, i.e. by 29.4%) and current accounts (by PLN 197,677 thousand, i.e. by 22.9%).
- Total equity as at 31 December 2014 amounted to PLN 7,410,760 thousand. An increase of total equity by PLN 103,496 thousand, i.e. by 1.4% compared to the previous year was mainly due to:
  - net profit generated by the Group in the amount of PLN 947,312 thousand in the audited financial year;
  - payment of dividend by a Parent Company from the profit for 2013 in the amount of PLN 934,216 thousand;
  - increase of revaluation reserve related mainly to a difference from valuation of financial assets available-for-sale (net) by PLN 95,836 thousand;
  - decrease of supplementary capital for net actuarial losses on specific services program valuation by PLN 5,898 thousand.
- The higher level of financing influenced mainly an increase of financial assets held-for-trading and amounts due from customers (an increase by PLN 6,969,744 thousand, i.e. by 121.2% and by PLN 1,539,155 thousand, i.e. by 10.1% respectively compared to the balance as at the end of 2013).

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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 2014**

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

- As at 31 December 2014, financial assets held-for-trading amounted to PLN 12,721,573 thousand and comprised mainly Treasury bonds in the amount of PLN 6,944,306 thousand and derivative instruments in the amount of PLN 5,624,460 thousand. The balance of the Treasury bonds valuation increased by PLN 4,842,770 thousand, i.e. by 230.4% and derivative instruments valuation increased by PLN 2,093,334 thousand, i.e. by 59.3%.
- As at 31 December 2014, an increase in valuation of derivative instruments both in financial assets held-for-trading and financial liabilities held-for-trading was primarily due to increase in valuation of interest rate swaps (an increase by PLN 1,889,794 thousand, i.e. by 64,9% on the assets side and by PLN 1,973,248 thousand, i.e. by 67,2% on the liabilities side).
- As at the end of the audited year, amounts due from banks amounted to PLN 2,065,685 thousand and decreased by PLN 1,474,242 thousand mainly due to a decrease of amounts payable as a result of purchasing securities with repurchase agreement (a decrease by PLN 1,160,179 thousand) and a decrease in the balance of deposits (a decrease by PLN 208,037 thousand).
- As at 31 December 2014, the net balance of amounts due from customers amounted to PLN 16,770,482 thousand, which was an increase by PLN 1,539,155 thousand, i.e. by 10.1% compared to the previous year. As at the end of 2014, the gross loan portfolio amounted to PLN 17,569,378 thousand and comprised mainly of loans and advances due from the non-financial sector entities in the gross amount of PLN 14,142,915 thousand, unlisted debt securities in the amount of PLN 1,118,225 thousand, purchased receivables in the amount of PLN 1,006,797 thousand and receivables related to securities buy under repurchase agreements in the gross amount of PLN 599,899 thousand. An increase of amounts due from customers was mainly due to an increase of the balance of loans and advances due from the non-financial sector entities by the gross amount of PLN 1,220,946 thousand, as well as an increase of receivables related to securities buy under repurchase agreements in the gross amount of PLN 499,110 thousand.
- The balance of impairment allowances for amounts due from customers decreased by PLN 185,137 thousand, i.e. by 18.8% and as at 31 December 2014 amounted to PLN 798,896 thousand. This decrease significantly resulted from a decrease in the impairment allowances of amounts due from individual customers (a decrease of PLN 140,491 thousand, i.e. by 26.2%), mainly as a result of a sale of a part of a retail exposure and an improvement of the quality of a loan portfolio. As at 31 December 2014, the share of impaired loans and advances in the total balance of loans and advances decreased by 2.3 pp. and amounted to 5.3%. The coverage ratio of impairment allowances for impaired loans and advances amounted to 77.5% and increased by 4.5 pp. compared to the end of 2013.

*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 2014**

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

- As at 31 December 2014, debt securities available for sale amounted to PLN 14,435,099 thousand and represented 29.0% of total assets. A decrease of this balance by PLN 3,180,942 thousand, i.e. 18.1% was due to a decrease of bills portfolio issued by central banks, and bonds portfolio issued by other banks which as at the end of the audited year decreased by PLN 5,248,896 thousand and PLN 106,700 thousand respectively. At the same time, the portfolio of Treasury bonds increased by PLN 2,174,654 thousand.
- The profit before tax for the audited year amounted to PLN 1,167,710 thousand and was lower than the profit before tax for 2013 by PLN 50,436 thousand, i.e. by 4.1%. The profit before tax comprised mainly of: net interest income of PLN 1,163,943 thousand, net fee and commission income of PLN 618,931 thousand, net income on trading financial instruments and revaluation of PLN 382,160 thousand and net gain on debt investment securities of PLN 229,922 thousand, reduced mainly by general administrative expenses of PLN 1,202,516 thousand.
- Net interest income amounted to PLN 1,163,943 thousand and decreased by PLN 78,209 thousand, i.e. by 6.3% compared to the previous year. A decrease of the net interest income was due to a decrease of interest income by PLN 157,261 thousand. At the same time, interest expense decreased by PLN 79,052 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 95,932 thousand and PLN 83,134 thousand respectively. A decrease of interest income and expense was mainly due to lowering market interest rates.
- Net fee and commission income amounted to PLN 618,931 thousand in the audited year and was lower by PLN 23,371 thousand, i.e. by 3.6% compared to the previous year. This was due to a decrease of fee and commission income by PLN 36,576 thousand, which was mainly a result of a decrease of income from payment and credit cards primarily due to a decrease of the interchange fee and a decrease of brokerage services fees. At the same time, fee and commission expense decreased by PLN 13,205 thousand.
- General administrative expenses amounted to PLN 1,202,516 thousand in the audited year (including administrative expenses which amounted to PLN 622,522 thousand and staff expenses which amounted to PLN 579,994 thousand) and decreased by PLN 99,492 thousand, i.e. by 7.6% 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 91,304 thousand, i.e. by 18.4%). A decrease of general administrative expenses for 2013 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 17,804 thousand (in 2013 was positive and amounted to PLN 36,204 thousand). Net impairment comprised in particular of reversal of impairment losses on financial assets related to receivables from sold retail portfolio, previously written-off, in the amount of PLN 19,816 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 2014**

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

- As a result, in the audited year the Group generated a net profit of PLN 947,312 thousand, which was lower by PLN 25,396 thousand, i.e. by 2.6% compared to the previous year.

**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 2014**

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**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. There were no changes to the accounting policies compared with the previous year.
- d. The consolidation of equity items and the determination of minority interests were 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 consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.
- i. The consolidated financial statements of the Group as at and for the year ended 31 December 2013 were approved by Resolution No. 8 /2014 passed by the General Shareholders' Meeting of the Parent Company on 24 June 2014 and filed with the National Court Register in Warsaw on 27 June 2014.
- j. The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

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

- k. 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.
- l. The total capital requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 2,256,721 thousand as at the balance sheet date. The Common Equity Tier I Capital ratio as at 31 December 2014 amounted to 17.5%. As at the balance sheet date, the Group complied with the prudence principle in all material respects.
- m. The notes to the consolidated financial statements present all the significant information in accordance with IFRS as adopted by the European Union.
- n. The information in the Group Directors' Report for the year from 1 January to 31 December 2014 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 2014**

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**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 2015.

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 2015, 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 2015

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