

Subject: Preliminary consolidated financial statement of the Capital Group of Bank Handlowy w Warszawie S.A. for 2012

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 No. 33, item 259, as further amended).

Bank Handlowy w Warszawie S.A. presents the preliminary consolidated financial results of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter referred to as the Group) for 2012.

The consolidated net profit of the Group for 2012 amounted to PLN 970.1 million, up by PLN 233.7 million (i.e. 31.7%) as compared to the net profit for 2011. The consolidated profit before tax for 2012 amounting to PLN 1,239.5 million grew by PLN 318.1 million (i.e. 34.5%) as compared to the previous year. The Group revenue increased by PLN 300.1 million (i.e. 12.4%) and reached the level of PLN 2,726.6 million in 2012.

The stand-alone net profit of the Bank (available for distribution) for 2012 amounted to PLN 1,008.7 million, up by PLN 287.4 million, i.e. 40% as compared to the net profit for 2011.

Below you will find a summary of key financial information and ratios for the Group for 2012 as compared to 2011.

Summary

- **Net profit:** PLN 970.1 million (up by PLN 233.7 million, i.e. 31.7%)
- **Operating margin:** PLN 1,297.2 million (up by PLN 302.5 million, i.e. 30.4%)
- **Operating income:** PLN 2,726.6 million (up by PLN 300.1 million, i.e. 12.4%)
- **Operating costs and depreciation:** PLN 1,429.6 million (down by PLN 2.4 million, i.e. 0.2%)
- **The key ratios:**
 - Return on equity (ROE): 15.5% (up by 2.6 p.p.)
 - Return on assets (ROA): 2.4% (up by 0.8 p.p.)
 - Cost/Income ratio: 52% (down by 7 p.p.)
- **Capital Adequacy Ratio (CAR):** 18.0% (up by 1.6 p.p.)

Income Statement

PLN '000	01.01 –	01.01 -	Change	
	31.12.2012	31.12.2011	PLN '000	%
Net interest income	1,488,281	1,434,354	53,927	3.8%
Net fee and commission income	598,858	643,170	(44,312)	(6.9%)
Dividend income	6,493	5,688	805	14.2%
Net income on trade financial instruments and revaluation	371,993	302,917	69,076	22.8%
Net gain on debt investment securities	279,451	30,142	249,309	827.1%
Net other operating income	(18,430)	10,288	(28,718)	(279.1%)
Total income	2,726,646	2,426,559	300,087	12.4%
General administrative expenses and depreciation	(1,429,634)	(1,432,022)	2,388	(0.2%)
Profit / (loss) on sale of fixed assets	84	2,073	(1,989)	(95.9%)
Net impairment losses	(58,101)	(76,809)	18,708	(24.4%)
Share of profits (losses) of entities accounted using the equity method	540	1,677	(1,137)	(67.8%)
Profit before tax	1,239,535	921,478	318,057	34.5%
Corporate income tax	(269,403)	(185,065)	(84,338)	45.6%
Net profit	970,132	736,413	233,719	31.7%

The main determinants of the Group's operating results in 2012 as compared to 2011 were in particular:

- net interest income amounting to PLN 1,488.3 million as compared to PLN 1,434.4 million in 2011 (up by PLN 53.9 million, i.e. 3.8%), primarily down to higher income from customer loans, which was a result of a significant increase in the volume of corporate loans. In 2012 there was also an increase in interest on debt securities held-for-trading. On the other hand in 2012, there was an increase in interest expense, mainly driven by liabilities towards the financial sector entities and banks;

Net interest income

PLN '000	01.01 –	01.01 -	Change	
	31.12.2012	31.12.2011	PLN '000	%
Interest and similar income from:				
Balances with the Central Bank	38,240	34,757	3,483	10.0%
Amounts due from banks	54,905	39,088	15,817	40.5%
Amounts due from customers, including:	1,260,149	1,180,019	80,130	6.8%
Financial sector entities	38,503	29,271	9,232	31.5%
Non-financial sector entities, including:	1,221,646	1,150,748	70,898	6.2%
Credit cards	362,857	373,835	(10,978)	(2.9%)
Debt securities available-for-sale	621,697	625,633	(3,936)	(0.6%)
Debt securities held-for-trading	101,268	47,893	53,375	111.4%
Total	2,076,259	1,927,390	148,869	7.7%
Interest expense and similar charges on:				
Balances with the Central Bank	(1)	(1)	-	0.0%
Amounts due to banks	(83,657)	(47,192)	(36,465)	77.3%
Amounts due to financial sector entities (excl. banks')	(125,156)	(80,488)	(44,668)	55.5%
Amounts due to non-financial sector entities	(372,293)	(353,348)	(18,945)	5.4%
Loans and advances received	(6,119)	(10,843)	4,724	(43.6%)
Debt securities issuance	(752)	(1,164)	412	(35.4%)
Total	(587,978)	(493,036)	(94,942)	19.3%
Net interest income	1,488,281	1,434,354	53,927	3.8%

- net fee and commission income amounting to PLN 598.9 million as compared to PLN 643.2 million in 2011 – a drop by PLN 44.3 million, i.e. 6.9% mainly as a result of a decline in fee income related to the capitals markets, i.e. from brokerage activity due to a decrease in equity trading in the secondary market on the Warsaw Stock Exchange (2012 turnover down by 24.3% as compared to 2011), from the sale of investment and insurance products (due to the fact that customers were choosing safer products with lower margins) and from payment orders. The decline was partially offset by an increase in fee income from credit cards and payment cards, which was primarily due to a higher value of transactions made with Citi Handlowy credit cards;

Net fee and commission income

PLN '000	01.01 –	01.01 -	Change	
	31.12.2012	31.12.2011	PLN '000	%
Fee and commission income				
Insurance and investment products	124,668	128,430	(3,762)	(2.9%)
Payment and credit cards	254,393	236,909	17,484	7.4%
Payment orders	108,116	114,598	(6,482)	(5.7%)
Custody services	87,744	87,585	159	0.2%
Cash loans	7,066	9,778	(2,712)	(27.7%)
Brokerage operations	47,562	87,926	(40,364)	(45.9%)
Account cash management services	28,478	29,072	(594)	(2.0%)
Off-balance-sheet guarantee liabilities	14,397	15,483	(1,086)	(7.0%)

PLN '000	01.01 –	01.01 –	Change	
	31.12.2012	31.12.2011	PLN '000	%
Off-balance-sheet financial liabilities	5,960	7,100	(1,140)	(16.1%)
Other	28,856	35,852	(6,996)	(19.5%)
Total	707,240	752,733	(45,493)	(6.0%)
Fee and commission expense				
Payment and credit cards	(55,704)	(52,012)	(3,692)	7.1%
Brokerage operations	(19,921)	(28,213)	8,292	(29.4%)
Fees paid to the National Depository for Securities (KDPW)	(16,633)	(16,889)	256	(1.5%)
Brokerage fees	(4,049)	(4,451)	402	(9.0%)
Other	(12,075)	(7,998)	(4,077)	51.0%
Total	(108,382)	(109,563)	1,181	(1.1%)
Net fee and commission income				
Insurance and investment products	124,668	128,430	(3,762)	(2.9%)
Payment and credit cards	198,689	184,897	13,792	7.5%
Payment orders	108,116	114,598	(6,482)	(5.7%)
Custody services	87,744	87,585	159	0.2%
Cash loans	7,066	9,778	(2,712)	(27.7%)
Brokerage operations	27,641	59,713	(32,072)	(53.7%)
Account cash management services	28,478	29,072	(594)	(2.0%)
Off-balance-sheet guarantee liabilities	14,397	15,483	(1,086)	(7.0%)
Off-balance-sheet financial liabilities	5,960	7,100	(1,140)	(16.1%)
Fees paid to the National Depository for Securities (KDPW)	(16,633)	(16,889)	256	(1.5%)
Brokerage fees	(4,049)	(4,451)	402	(9.0%)
Other	16,781	27,854	(11,073)	(39.8%)
Total	598,858	643,170	(44,312)	(6.9%)

- net income on trade financial instruments and revaluation amounting to PLN 372.0 million as compared to PLN 302.9 million in 2011, i.e. up by PLN 69.1 million as a result of higher result on the Bank's proprietary management;
- net gain on investment debt securities amounting to PLN 279.5 million as compared to PLN 30.1 million in 2011; a significant improvement due to the realized gains in the declining bond yields environment in 2012;
- net other operating income amounting to PLN -18.4 million as compared to PLN 10.3 million in 2011, i.e. down by PLN 28.7 million. The 2011 result was influenced by the reimbursement of interest on overpaid CIT tax to the Tax Office in the amount of PLN 17 million;
- in comparison with 2011, in 2012 the Group reported a slight decrease in general administrative expenses and overheads together with depreciation expenses by PLN 2.4 million, i.e. 0.2%, mainly due to lower costs of external services related to distribution of banking products, lower advisory costs as well as lower advertising and marketing expenses. At the same time it should be stressed that in the first quarter of 2012, the Bank established a restructuring provision in the amount of PLN 42.2 million (PLN 32.4 million out of which was presented in the staff expenses line and PLN 9.8 million in the building maintenance and rent expenses line).

General administrative expenses and depreciation expense

PLN '000	01.01 –	01.01 –	Change	
	31.12.2012	31.12.2011	PLN '000	%
Staff expenses	(720,051)	(680,966)	(39,085)	5.7%
Remuneration costs	(591,089)	(571,191)	(19,898)	3.5%
Bonuses and rewards	(128,962)	(109,775)	(19,187)	17.5%
Administrative expenses	(644,900)	(691,040)	46,140	(6.7%)
Telecommunication fees and hardware purchase costs	(170,003)	(167,567)	(2,436)	1.5%
Advisory, audit, consulting and other external services' costs	(81,470)	(91,494)	10,024	(11.0%)
Building maintenance and rent costs	(111,841)	(106,081)	(5,760)	5.4%

PLN '000	01.01 –	01.01 -	Change	
	31.12.2012	31.12.2011	PLN '000	%
Advertising and Marketing costs	(49,375)	(56,416)	7,041	(12.5%)
Cash management services, KIR services and other transactional costs	(46,853)	(55,352)	8,499	(15.4%)
Costs of external services concerning distribution of banking products	(54,037)	(68,264)	14,227	(20.8%)
Postal services, office supplies and printmaking costs	(25,118)	(31,379)	6,261	(20.0%)
Training and education costs	(5,384)	(8,144)	2,760	(33.9%)
Banking supervision costs	(3,179)	(4,171)	992	(23.8%)
Other costs	(97,640)	(102,172)	4,532	(4.4%)
Depreciation/amortization of tangible and intangible assets	(64,683)	(60,016)	(4,667)	7.8%
Total	(1,429,634)	(1,432,022)	2,388	(0.2%)

- net impairment losses of PLN -58,1 million as compared to net impairment losses in 2011 of PLN -76.8 million (down by PLN 18.7 million, i.e. 24.4%). This was due to a further significant improvement of the Retail Banking portfolio quality (especially in the case of credit cards and cash loans). The improvement of the portfolio quality reflects the changes in the credit policy, which allowed to significantly reduce the share of overdue balances and the number of remedial cases. Moreover in the second quarter of 2012 a part of impaired exposures of value of PLN 89.5 million was sold (written-off the Bank's balance sheet in full) for PLN 14.2 million. In the Corporate Banking net impairment losses grew by PLN 48.2 million (from PLN +20.1 million in 2011 to PLN -28.1 million in 2012), which was predominantly a result of higher risk of borrowers' failure to fulfill their obligations on time, mainly in the Enterprises segment (SME & MME).

Impairment of financial assets value and provisions for off-balance sheet liabilities

PLN '000	01.01 –	01.01 -	Change	
	31.12.2012	31.12.2011	PLN '000	%
Net impairment write-downs of financial assets				
Impairment write-downs				
Capital investments	(5,092)	-	(5,092)	-
Amounts due from banks	(865)	(1,276)	411	(32.2%)
Amounts due from customers	(295,660)	(362,878)	67,218	(18.5%)
Amounts due from matured derivative transactions	(1,518)	(2,841)	1,323	(46.6%)
Other	(13,144)	(16,821)	3,677	(21.9%)
	(316,279)	(383,816)	67,537	(17.6%)
Reversals of impairment write-downs				
Amounts due from banks	797	1,719	(922)	(53.6%)
Amounts due from customers	242,073	303,264	(61,191)	(20.2%)
Amounts due from matured derivative transactions	759	2,960	(2,201)	(74.4%)
Recovers from sold debts	14,551	-	14,551	-
	258,180	307,943	(49,763)	(16.2%)
	(58,099)	(75,873)	17,774	(23.4%)
Net (charges to)/ releases of provisions for off-balance liabilities				
Charges to provisions for off-balance sheet commitments	(22,768)	(39,766)	16,998	(42.7%)
Releases of provisions for off-balance sheet commitments	22,766	38,830	(16,064)	(41.4%)
	(2)	(936)	934	(99.8%)
	(58,101)	(76,809)	18,708	(24.4%)

- corporate income tax of PLN 269.4 million as compared to PLN 185.1 million in 2011. The tax expense for 2012 was increased by the value of an deferred tax asset of Handlowy-Leasing sp. z o.o. written off in the fourth quarter of 2012 in the amount of PLN 19.9 million. The primary reason for the write-off was the insufficient level of the estimated future tax income due to the reduced business scale of this company.

Balance sheet

At the end of December 31st of 2012 the Group's total assets amounted to PLN 43,508.8 million, up by 2.9% as compared to the end of 2011. The following elements had the biggest impact on the assets increase:

- growth of customer receivables by PLN 1.5 billion, i.e. 10.2%, as an effect of a significant growth, i.e. by 16.6%, in loans to corporate customers. An increase was reported in all primary market segments, i.e. the SME & MME segment (mainly Large Enterprises), Global Clients and Corporate Clients;
- decline in debt securities available for sale by PLN 2.6 billion, i.e. 14.9%, mainly as a result of a decrease in the position in the State Treasury bonds as well as in the NBP cash bills,
- growth of financial assets held for trading by PLN 1.0 billion, i.e. 17.8%, both due to the increase in the valuation of derivative instruments as well as the increased bonds portfolio.
- growth of amounts due from banks by PLN 0.9 billion, i.e. 166.6%;

On the liabilities side the biggest change was recorded in liabilities towards banks which decreased by PLN 3.7 billion as compared to the end of 2011 and in the financial liabilities held-for-trading (up by PLN 1.0 billion, i.e. 20.8%, mainly driven by interest rate derivatives). As at the end of 2011 there was also reported an increase in other liabilities due to customers by PLN 3.0 billion, which is primarily down to a higher level of liabilities due to repo transactions with financial institutions.

Balance sheet

PLN '000	State as at		Change	
	31.12.2012	31.12.2011	PLN '000	%
ASSETS				
Cash and balances with the Central Bank	1,357,308	979,616	377,692	38.6%
Amounts due from banks	1,461,901	548,256	913,645	166.6%
Financial assets held-for-trading	6,838,483	5,805,044	1,033,439	17.8%
Debt securities available-for-sale	15,003,003	17,625,355	(2,622,352)	(14.9%)
Capital investments valued at equity method	15,110	57,945	(42,835)	(73.9%)
Other capital investments	19,921	24,912	(4,991)	(20.0%)
Amounts due from customers	16,221,412	14,719,473	1,501,939	10.2%
Tangible fixed assets	409,916	457,929	(48,013)	(10.5%)
Intangible assets	1,379,931	1,292,067	87,864	6.8%
Income tax assets	221,488	338,757	(117,269)	(34.6%)
Other assets	567,736	403,182	164,554	40.8%
Fixed assets held-for-sale	12,554	25,662	(13,108)	(51.1%)
Total assets	43,508,763	42,278,198	1,230,565	2.9%
LIABILITIES				
Due to banks	2,356,429	6,011,378	(3,654,949)	(60.8%)
Financial liabilities held-for-trading	5,846,404	4,840,447	1,005,957	20.8%
Due to customers	26,852,165	24,095,847	2,756,318	11.4%
Due to debt securities issuance	-	25,336	(25,336)	(100.0%)
Provisions	28,656	34,914	(6,258)	(17.9%)
Income tax liabilities	55,343	72,921	(17,578)	(24.1%)
Other liabilities	978,351	752,874	225,477	29.9%
Total liabilities	36,117,348	35,833,717	283,631	0.8%

PLN '000	State as at		Change	
	31.12.2012	31.12.2011	PLN '000	%
EQUITY				
Share capital	522,638	522,638	-	-
Share premium	3,011,380	3,009,396	1,984	0,1%
Revaluation reserve	257,791	(82,294)	340,085	(413.3%)
Other reserves	2,637,066	2,264,082	372,984	16.5%
Retained earnings	962,540	730,659	231,881	31.7%
Total equity	7,391,415	6,444,481	946,934	14.7%
Total liabilities and equity	43,508,763	42,278,198	1,230,565	2.9%

Receivables from customers divided into at risk vs. not at risk of impairment

PLN '000	31.12.2012	31.12.2011	Change	
			PLN '000	%
Not at risk of impairment, including:				
non-financial sector	15,938,733	14,356,929	1,581,804	11.0%
corporate customers *	15,005,344	13,347,525	1,657,819	12.4%
individual customers	9,833,172	8,331,622	1,501,550	18.0%
individual customers	5,172,172	5,015,903	156,269	3.1%
At risk of impairment, including:	1,299,462	1,481,786	(182,324)	(12.3%)
non-financial sector	1,280,466	1,462,789	(182,323)	(12.5%)
corporate customers *	531,645	616,513	(84,868)	(13.8%)
individual customers	748,821	846,276	(97,455)	(11.5%)
Dues related to matured derivative transactions	114,144	116,547	(2,403)	(2.1%)
Total gross receivables from customers, including:	17,352,339	15,955,262	1,397,077	8.8%
non-financial sector	16,285,810	14,810,314	1,475,496	10.0%
corporate customers *	10,364,817	8,948,135	1,416,682	15.8%
individual customers	5,920,993	5,862,179	58,814	1.0%
Impairment, including:	(1,130,927)	(1,235,789)	104,862	(8.5%)
Dues related to matured derivative transactions	(94,925)	(96,063)	1,138	(1.2%)
Total net receivables from customers	16,221,412	14,719,473	1,501,939	10.2%
Provision coverage ratio	79.7%	76.9%		
corporate customers *	67.0%	60.0%		
individual customers	88.2%	88.7%		
Non-performing loans ratio (NPL)	7.5%	9.4%		

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

Customer net receivables

PLN '000	31.12.2012	31.12.2011	Change	
			PLN '000	%
Amounts due from financial sector entities				
	933,272	1,009,315	(76,043)	(7.5%)
Amounts due from non-financial sector entities including:	15,288,140	13,710,158	1,577,982	11.5%
Corporate customers *	10,027,941	8,598,887	1,429,054	16.6%
Individual customers, including:	5,260,199	5,111,271	148,928	2.9%
Credit cards	2,150,189	2,250,751	(100,562)	(4.5%)
Cash loans	2,103,643	2,189,440	(85,797)	(3.9%)
Mortgages	925,740	583,674	342,066	58.6%
Total net customer receivables	16,221,412	14,719,473	1,501,939	10.2%

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

Customer liabilities

PLN '000	31.12.2012	31.12.2011	Change	
			PLN '000	%
Current accounts of:	14,279,499	13,228,771	1,050,728	7.9%
financial sector entities	444,961	267,645	177,316	66.3%
non-financial sector entities, including:	13,834,538	12,961,126	873,412	6.7%
corporate customers*, including:	8,998,764	8,224,387	774,377	9.4%
budgetary units	2,008,369	2,607,506	(599,137)	(23.0%)
individual customers	4,835,774	4,736,739	99,035	2.1%
Term deposits from:	9,330,619	10,672,927	(1,342,308)	(12.6%)
financial sector entities	2,346,533	1,963,538	382,995	19.5%
non-financial sector entities, including:	6,984,086	8,709,389	(1,725,303)	(19.8%)
corporate customers*, including:	5,933,352	7,463,779	(1,530,427)	(20.5%)
budgetary units	823,099	762,883	60,216	7.9%
individual customers	1,050,734	1,245,610	(194,876)	(15.7%)
Accrued interest	19,602	20,307	(705)	(3.5%)
Total customers deposits	23,629,720	23,922,005	(292,285)	(1.2%)
Other liabilities to customers	3,222,445	173,842	3,048,603	1,753.7%
Total amounts due to customers	26,852,165	24,095,847	2,756,318	11.4%

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

Ratios

In 2012 all key financial ratios improved. The return on equity ratio (ROE) grew to 15.5%, i.e. up by 2.6 p.p. from 12.9% in the previous year. The return on assets ratio (ROA) amounted to 2.4%, up by 0.8 p.p. as compared to 1.6% in 2011. The improvement of the above ratios was predominantly a result of a significant increase in the net profit in 2012.

In terms of cost efficiency, the Bank also recorded an improvement in reducing the cost to income ratio to 52% from 59% last year.

The net interest margin on both total assets and interest bearing assets increased in 2012, thus remaining one of the highest interest margins in the Polish banking sector.

The loans to deposits ratio grew in 2012 by 10 p.p. to 73%, mainly as a result of increased corporate loans. The ratio, despite an y-o-y increase, remained at a safe level, positively highlighting the Bank against the banking sector as regards liquidity.

Ratios	2012	2011
ROE	15.5%	12.9%
ROA	2.4%	1.6%
Cost/Income	52%	59%
Interest margin on total assets	3.7%	3.1%
Interest margin on interest-bearing assets	4.4%	4.0%
Non-financial sector loans/ Non-financial sector deposits	73%	63%

Consolidated income statement of the Group by business segments

PLN '000	For the period			01.01. – 31.12.2012		01.01. – 31.12.2011	
	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total	
Net interest income	715,122	773,159	1,488,281	670,096	764,258	1,434,354	
Net commission income	250,901	347,957	598,858	307,411	335,759	643,170	
Dividend income	2,779	3,714	6,493	1,314	4,374	5,688	

PLN '000	For the period		01.01. – 31.12.2012		01.01. – 31.12.2011	
	Corporate Banking	Consumer Banking	Total	Corporate Banking	Consumer Banking	Total
Net income on trade financial instruments and revaluation	335,731	36,262	371,993	271,932	30,985	302,917
Net gain on debt investment securities	279,451	-	279,451	30,142	-	30,142
Net other operating income	8,605	(27,035)	(18,430)	35,121	(24,833)	10,288
General administrative expenses	(628,024)	(736,927)	(1,364,951)	(595,802)	(776,204)	(1,372,006)
Depreciation of fixed assets and Profit / (loss) on sale of nonfinancial assets	(30,106)	(34,577)	(64,683)	(27,140)	(32,876)	(60,016)
Result on write offs due to impairment of financial assets and provisions for off-balance sheet liabilities	54	30	84	105	1,968	2,073
Operating income	906,402	332,593	1,238,995	713,289	206,512	919,801
Share in net profits (losses) of entities valued at equity method	540	-	540	1,677	-	1,677
Profit before tax	906,942	332,593	1,239,535	714,966	206,512	921,478
Income tax expense			(269,403)			(185,065)
Net profit			970,132			736,413