

# Bank Handlowy w Warszawie S.A.

## 2Q 2014 consolidated financial results

August 1, 2014

Preliminary financial results of the Capital Group of  
Bank Handlowy w Warszawie S.A. for 2Q 2014

The logo for Citi Handlowy, featuring the word "citi" in white lowercase letters with a red arc above the "i", followed by "handlowy" in white lowercase letters, and a registered trademark symbol (®) to the right.

# Summary of 2Q 2014 in Citi Handlowy

## High efficiency

- Another quarter of solid net profit
- Revenue growth in all lines: **+5%** QoQ
- Cost / Income ratio at the level of strategic target: **50%**
- Low cost of risk despite the acceleration in lending: **10 bps.**, NPL: **5.9%**

## Business development

- High productivity of Smart branches: **x6–8** vs. traditional branches
- Gold clients acquisition growth (**+14%** YoY) and investment products sales (**+27%** YoY)
- High result in the area of financial markets
- Participation in significant transactions for institutional clients



Net profit  
PLN 266 MM

## Volumes growth

- Another quarter of lending volumes growth: **+3%** QoQ; **+9%** YTD (excl. reverse repo transactions)
- Consistent growth in unsecured loans sales: **+18%** QoQ; **+63%** YoY
- Consistent growth in demand deposits: **+3%** QoQ; **+9%** YoY

## Equity and liquidity

- Strong equity position ensuring consistent dividend policy:
  - Tier 1 (Basel III ratio): **17%**
  - 100% of 2013 net profit allocated to dividend payout (according to the General Meeting of Shareholders approval as of June 24)
- High liquidity: loans / deposits: **74%**

# Corporate Banking

## Leader in strategic areas

### Financial Markets

- Leading position on the **foreign exchange market**

FX turnover

**+14%** YoY

CitiFX Pulse – transaction volume

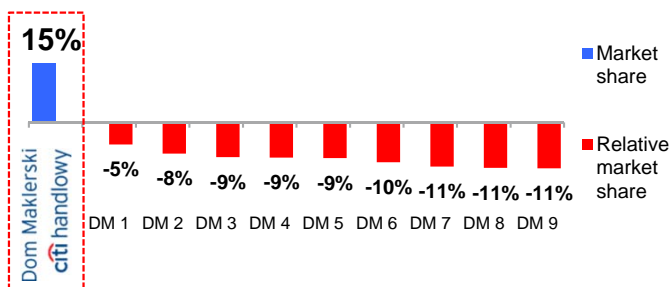
**+27%** YoY

CitiFX Pulse – share in FX transactions

**70%**

### Brokerage

- #1** in the volume of trading in shares on the Warsaw Stock Exchange



- Participation in key **ECM transactions** on the Warsaw Stock Exchange

**BNP PARIBAS**

Secondary Public Offering

**citi handlowy**

Sole Coordinator

**PLN 231 MM**

**talax.**  
Versicherungen, Finanzen

Admission to trading on the WSE

**citi handlowy**

acted as investment company

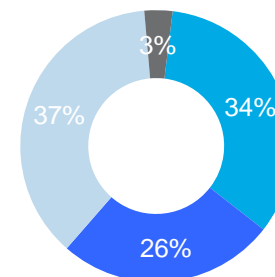
- Leader in the area of **Custody** – market share at **47%** at the end of 2Q 2014 (vs. 49% - 2Q 2013 and 43% - 1Q 2014)

## Active support for customers

### Lending

- Growth in all customer segments

SME & MME  
**+21%** YTD  
**+21%** YoY



Global customers  
**+2%** YTD  
**-10%** YoY

Corporate customers  
**+5%** YTD  
**+24%** YoY

### Transaction services

- Cash management – strategic focus on operating accounts
- Leader in **Public Sector** – new clients acquired in 2Q

Demand deposits  
**+12%** YoY

- Innovative solutions** for customers: CitiDirect application on tablets



**POLSKIE RADIO**

Banking services

**citi handlowy**

was chosen in a public tender for 3 years period

**TVP TELEWIZJA POLSKA**

Banking services

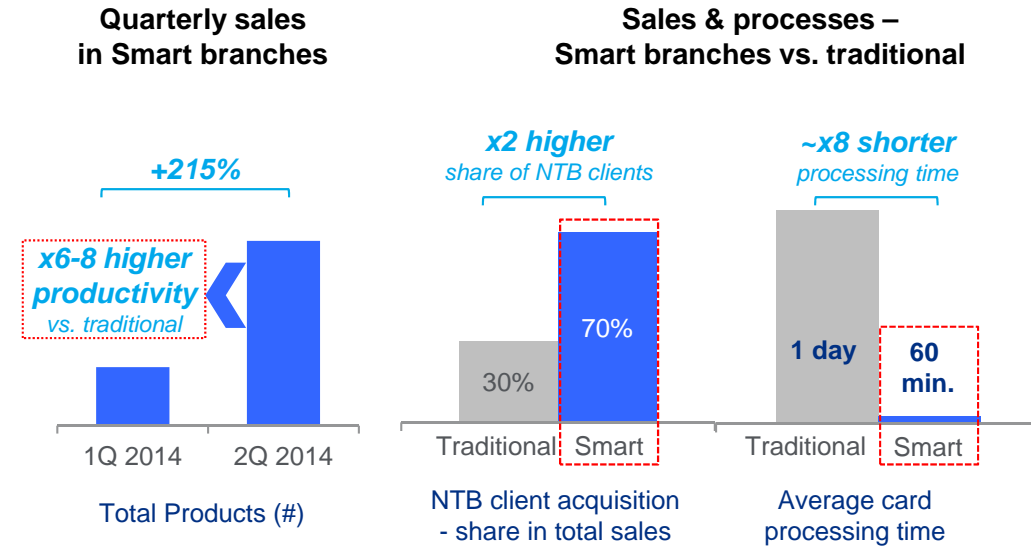
**citi handlowy**

was chosen in a public tender for 5 years period

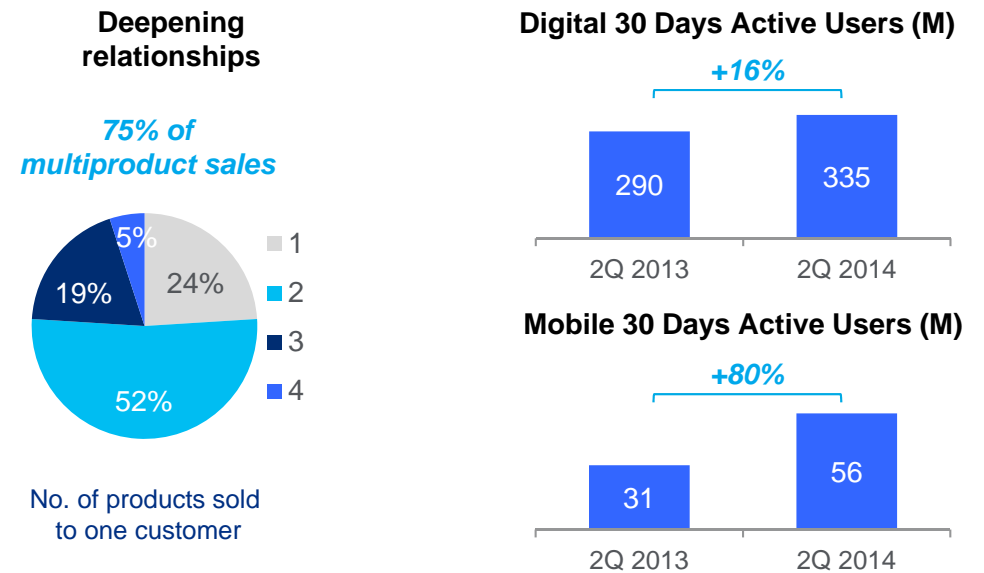
# Retail Banking

## Smart Banking Ecosystem

### Smart Branches – key statistics



### Moving towards digital & mobile banking



## Relationship banking

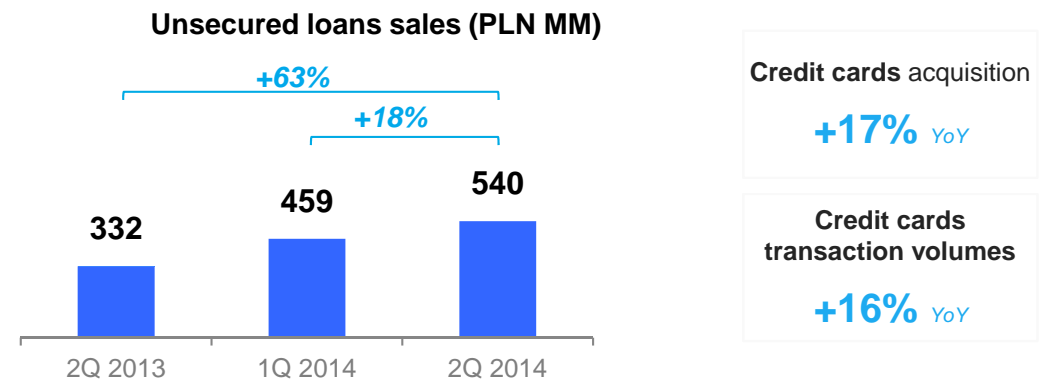
### Focus on Gold clients and investment products



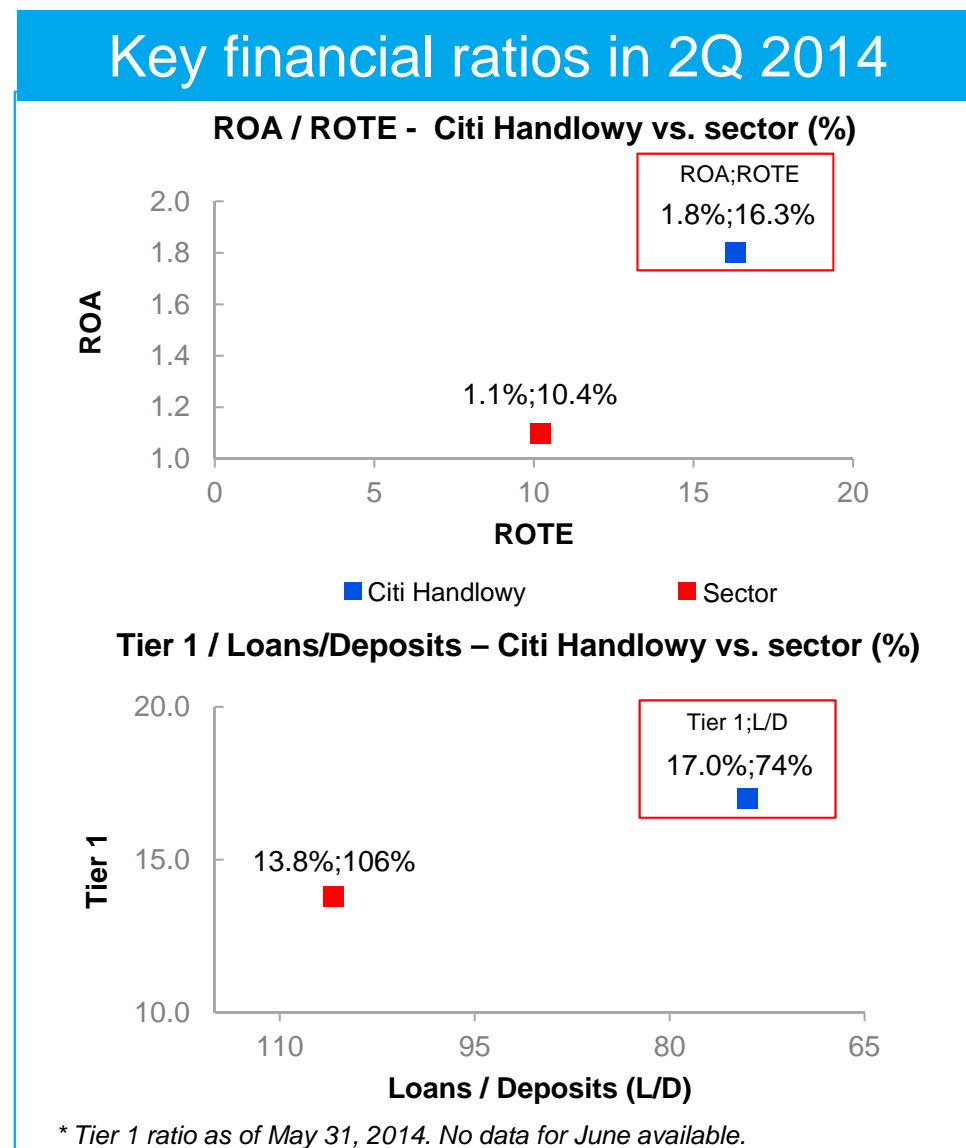
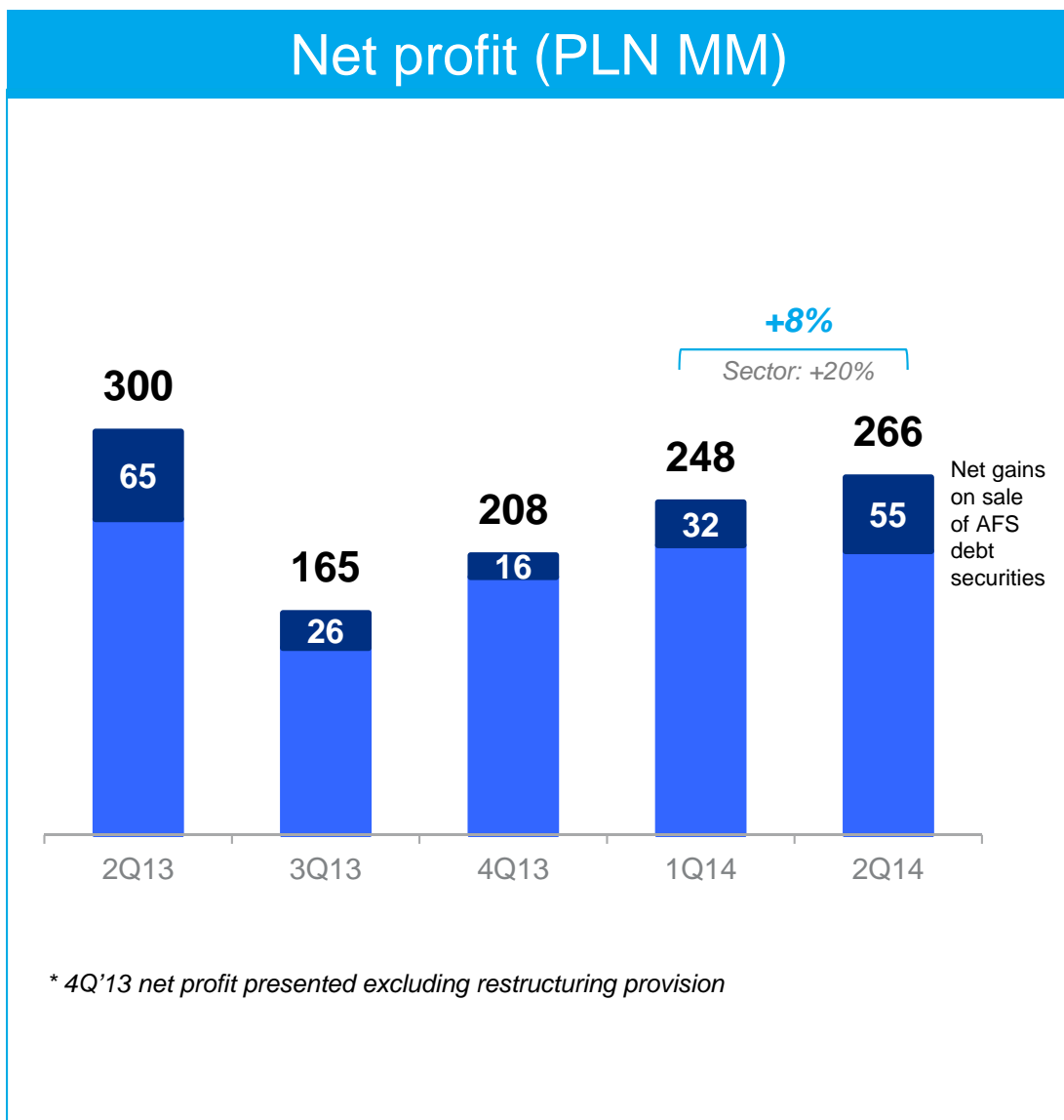
- CitiGold service network expansion:
  - FX Specialists already in 50% of Gold Hubs
  - Investment Manager available in 70% of Gold Hubs
- New simplified process of mutual funds sales (one order for all recommended funds)

## Lending growth

### Growth of unsecured lending products acquisition



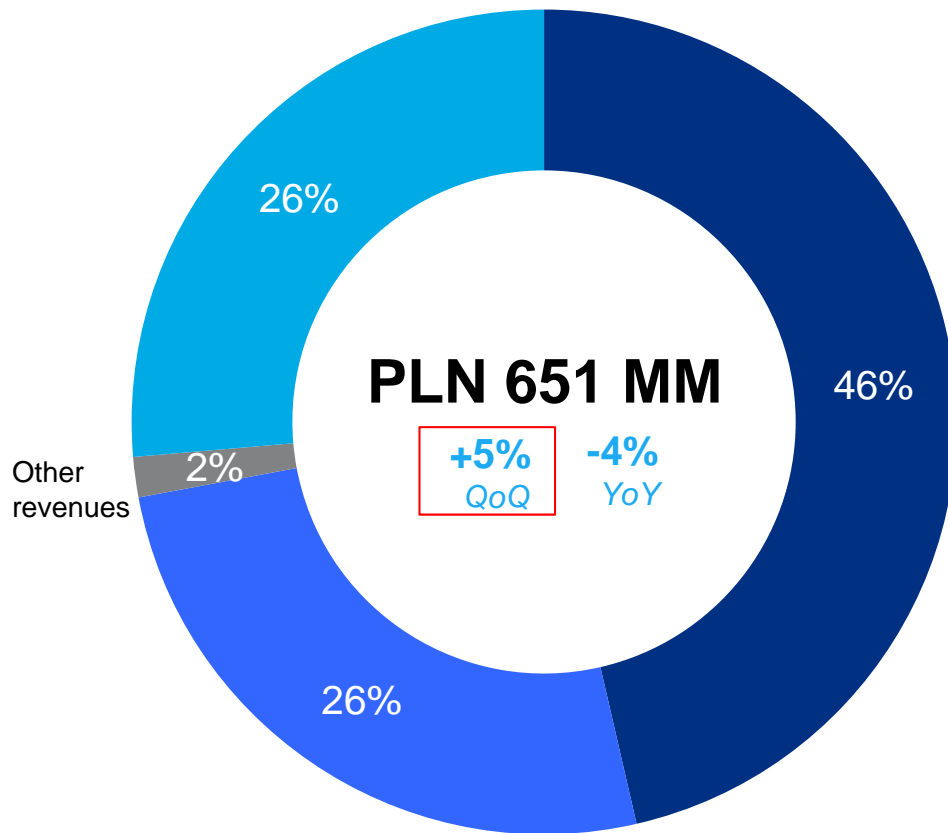
# Another quarter of solid net profit



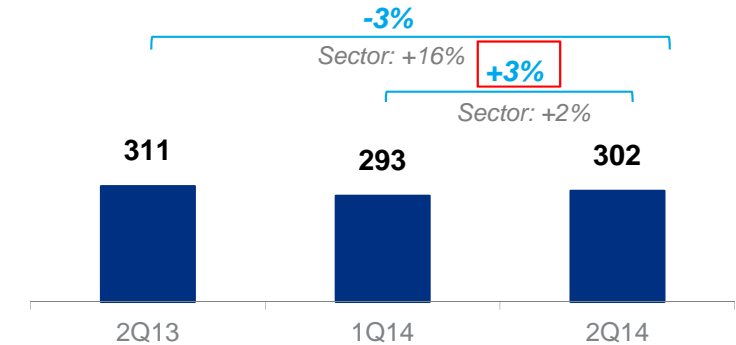
▶ High efficiency of the Bank – ratios better than the sector and strategic targets

# Revenue growth in all business lines

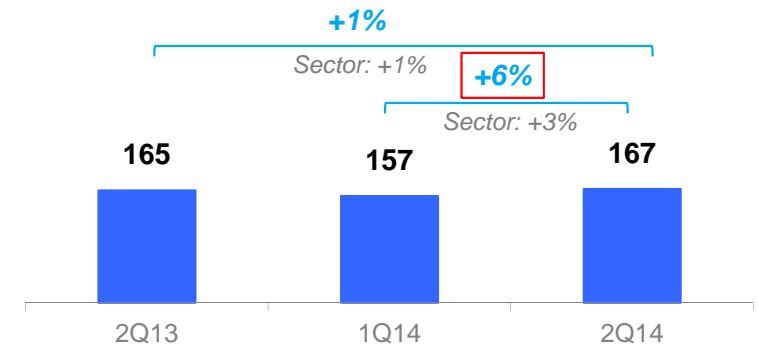
## Revenue in 2Q 2014



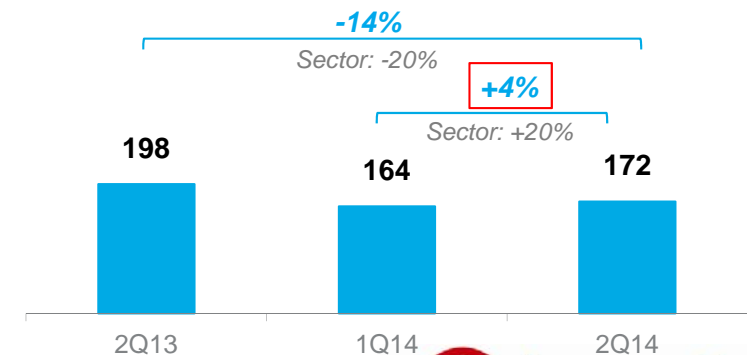
## Net interest income (PLN MM)



## Net fee & commission income (PLN MM)



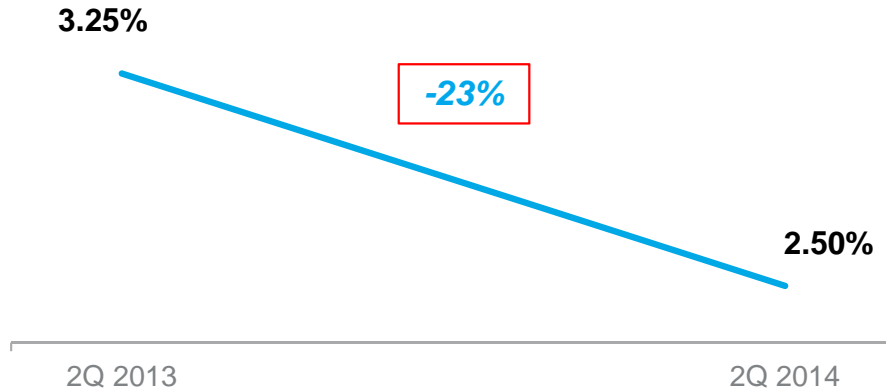
## Treasury result (PLN MM) (customer operations and interbank market operations)



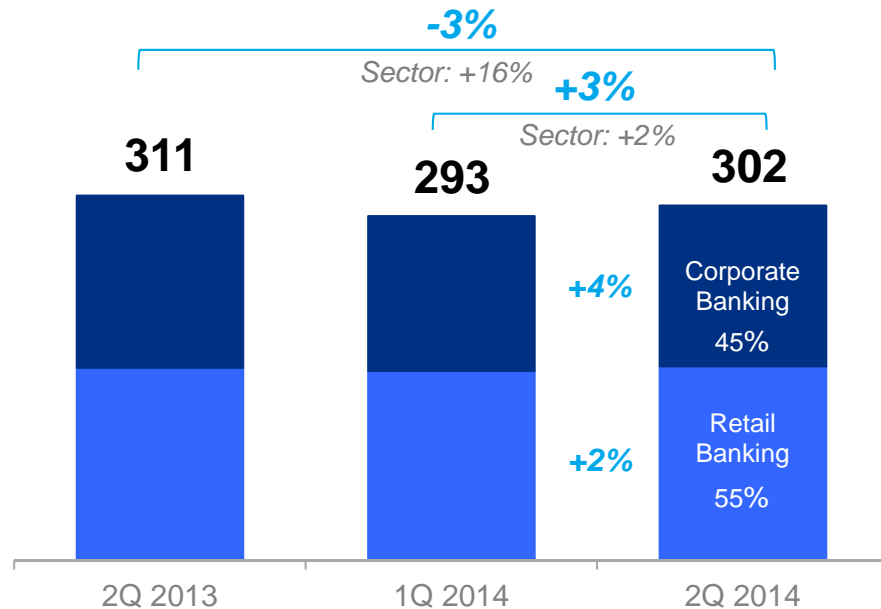
Interests + Fees & commissions: **↑ 4% QoQ** **↓ 1% YoY**

# Net interest income reflecting lending growth

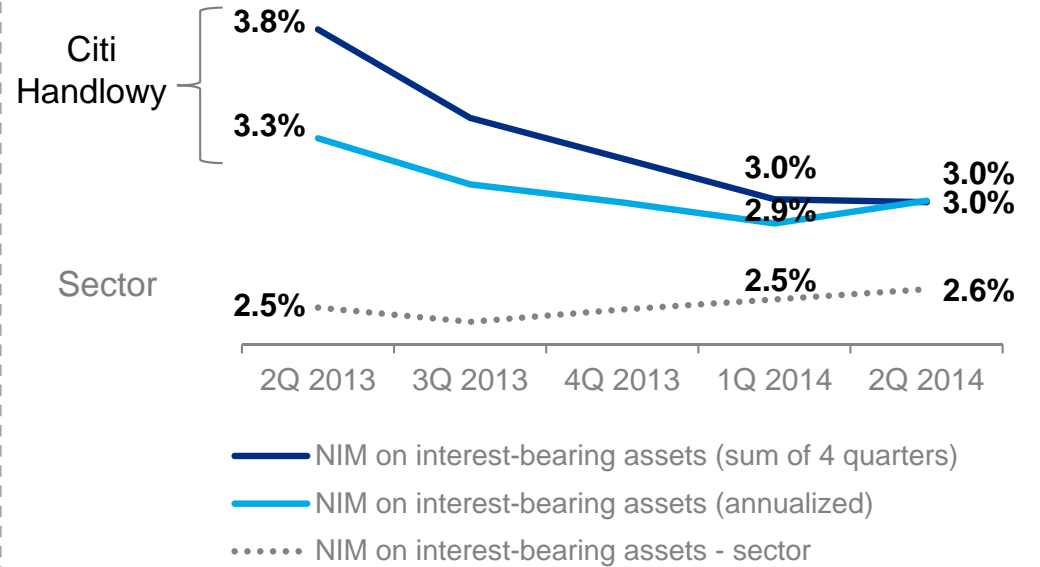
Central Bank reference rate



Net interest income (PLN MM)



Net interest margin (NIM) - Bank vs. sector

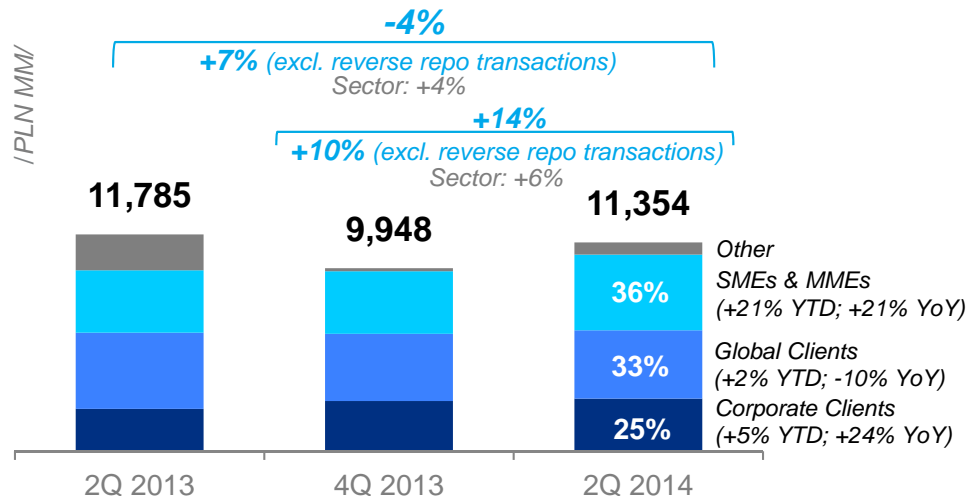


- Increase in net interest income due to higher customer revenues mainly as a result of growth in lending volumes, both in retail and corporate banking
- Net interest margin improvement in 2Q 2014, still above the average sector level

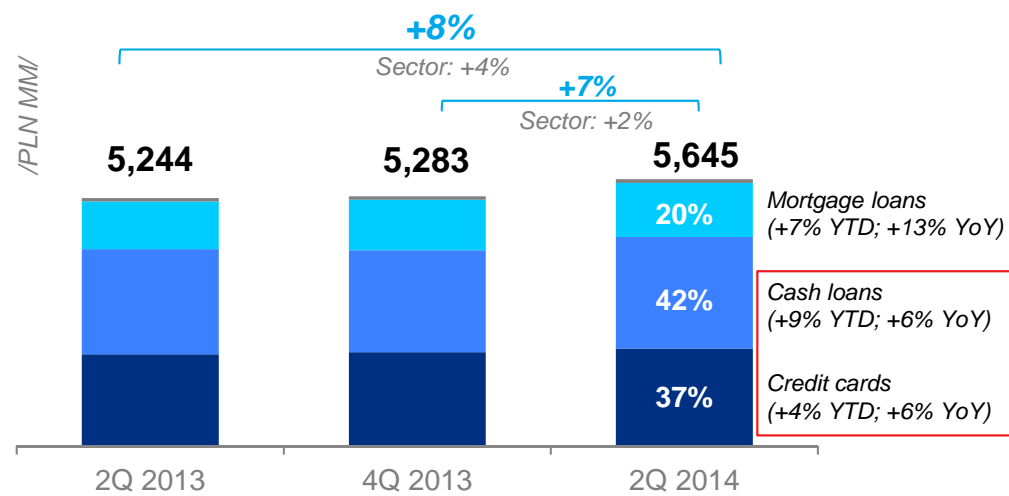
# Customer volumes

## Lending growth acceleration

### Institutional non-banking customers' loans

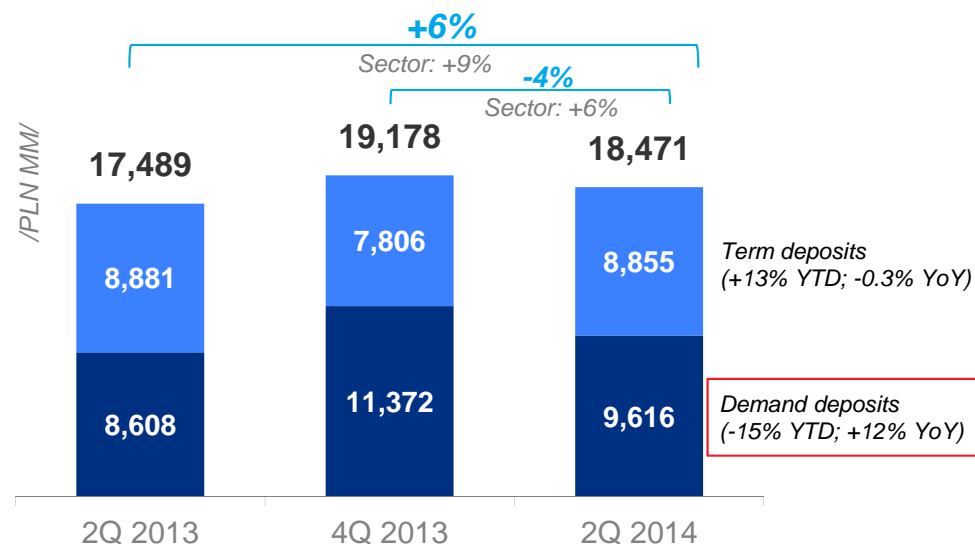


### Individual customers' loans

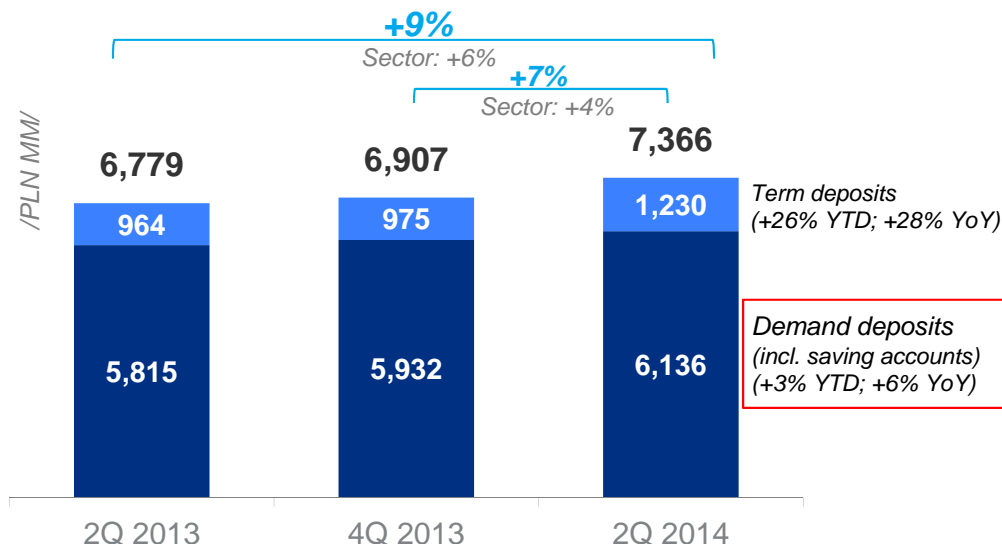


## Growth in retail deposits as a result of focus on operating accounts

### Institutional non-banking customers' deposits



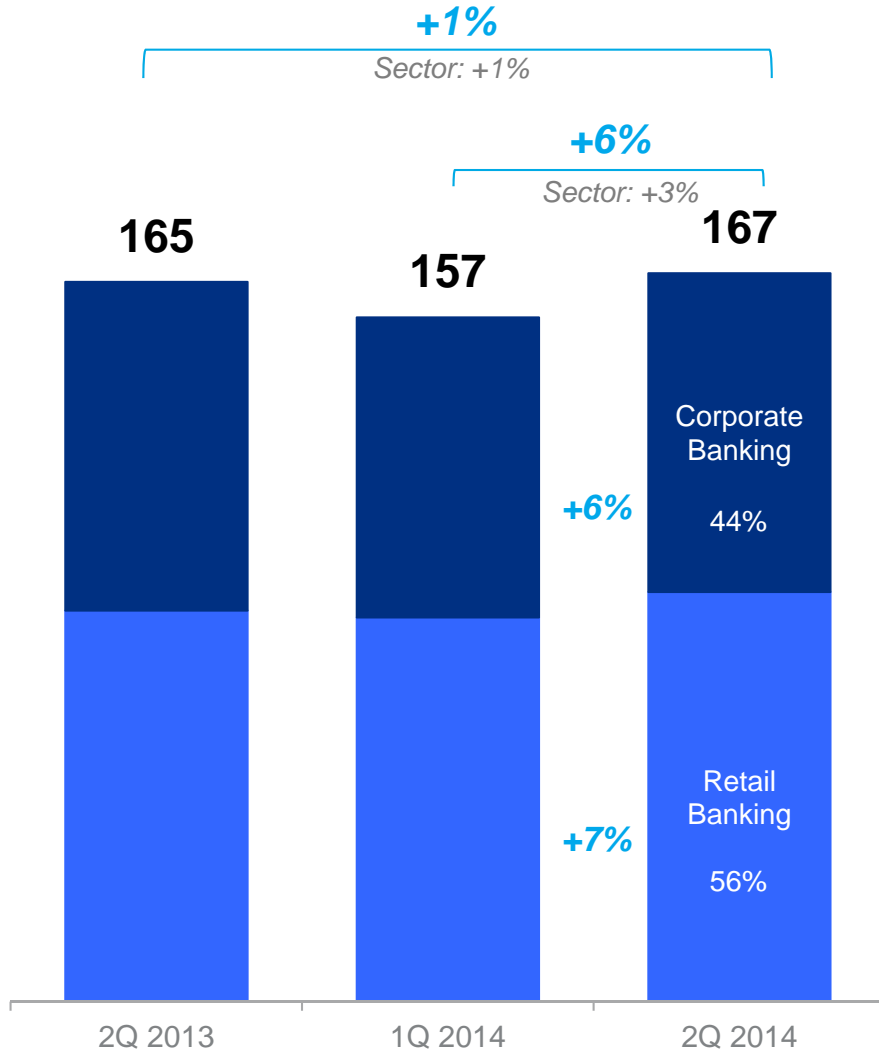
### Individual customers' deposits



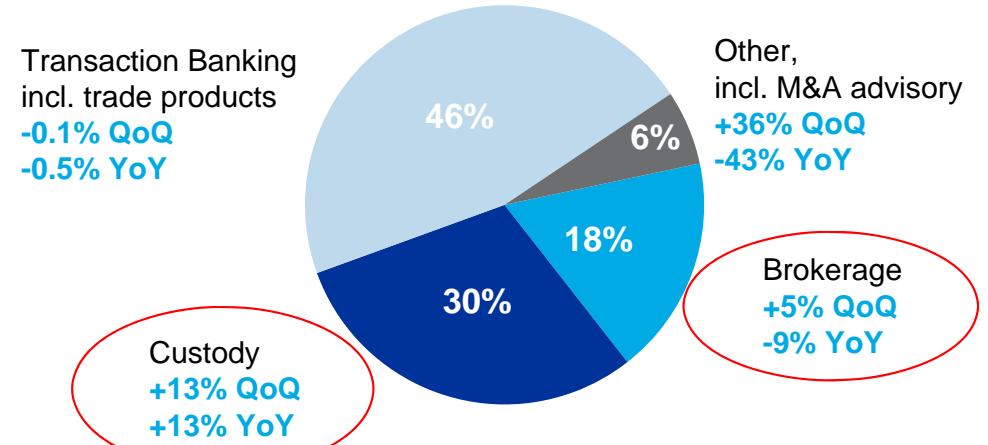


# Net fee & commission income

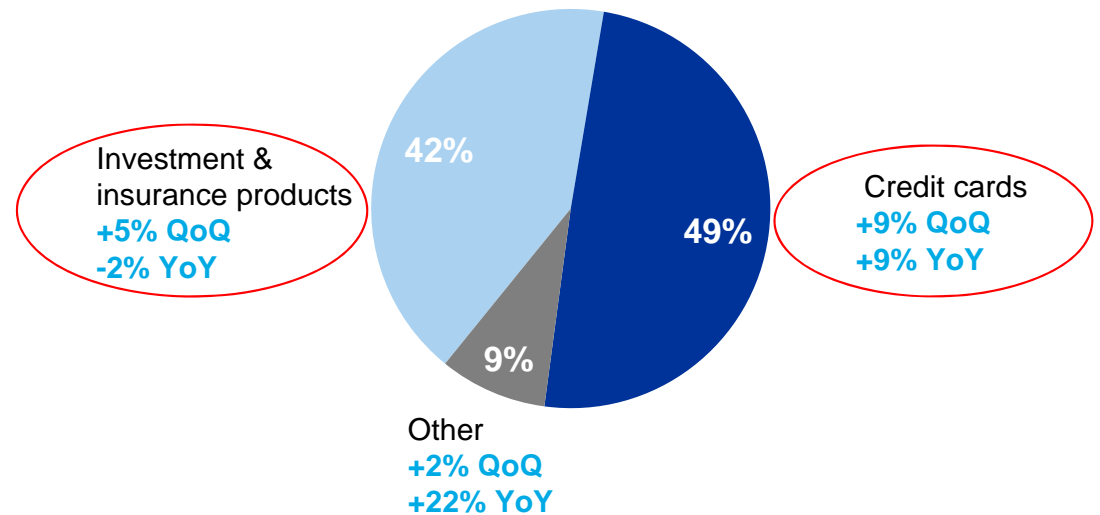
Net fee & commission income (PLN MM)



Corporate Banking **+6% QoQ** and **-3% YoY**

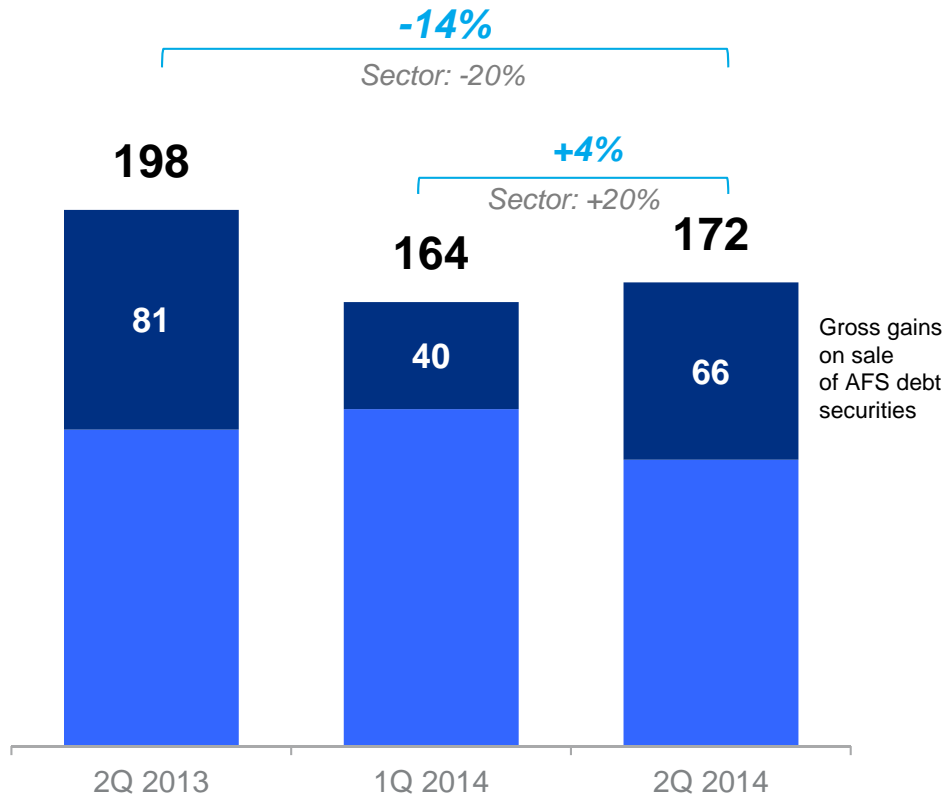


Retail Banking **+7% QoQ** and **+5% YoY**

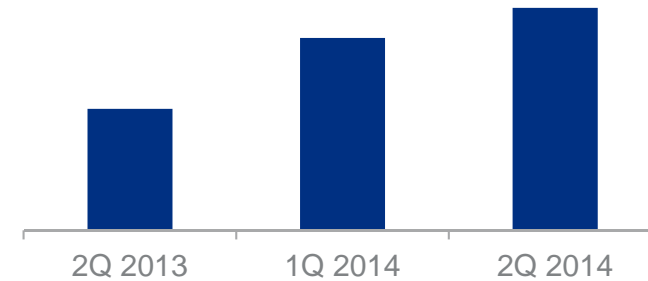


# Treasury

## Treasury result (PLN MM)



## Result on customer operations



## Result on the interbank market operations



Note: The scales on the graphs are not comparable.

#1 on the market

**CitiFXPULSE** 

is the most common  
electronic FX platform  
on the market

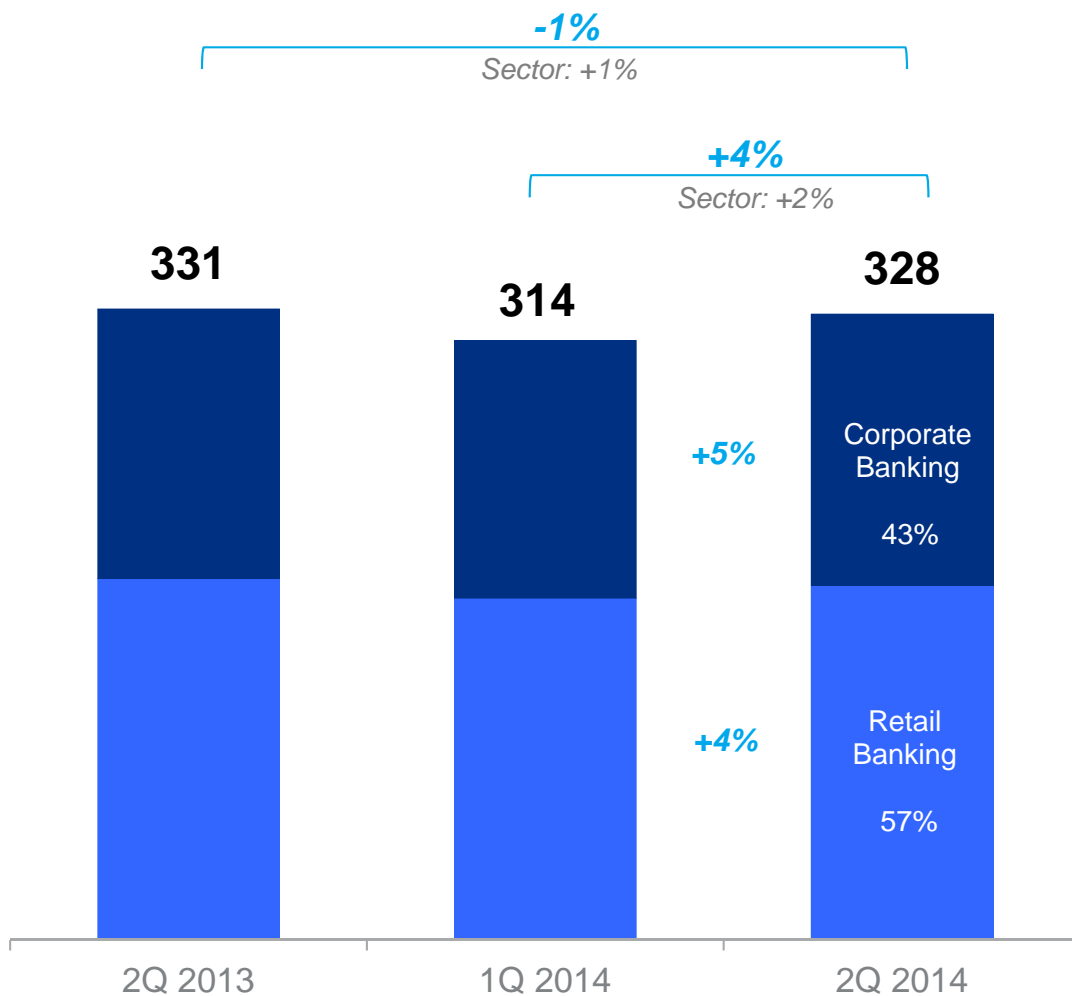
in the contest of Ministry of Finance



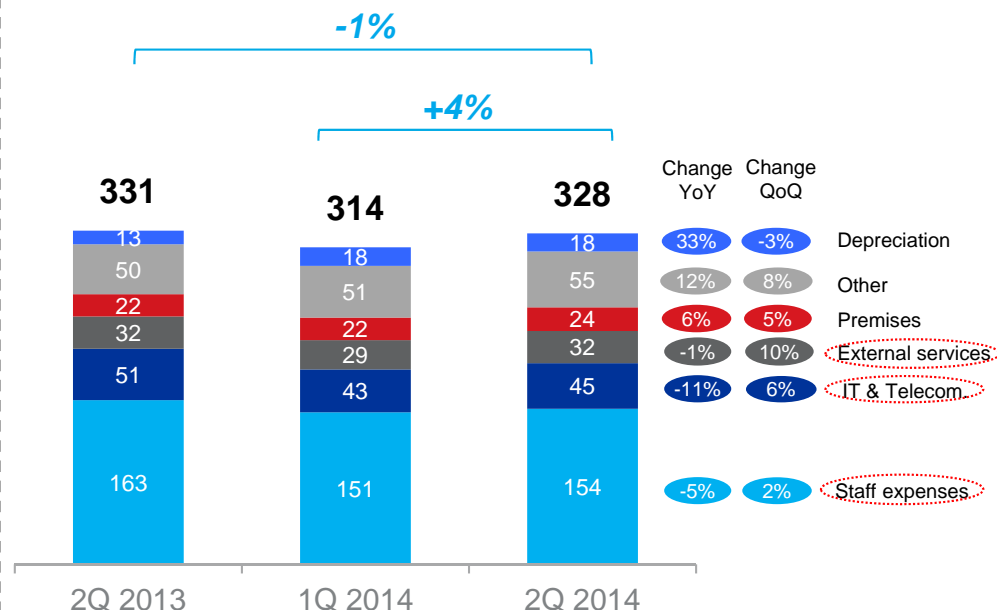
to act as **Treasury Securities Dealer**

# Expenses and depreciation

Expenses and depreciation (PLN MM)



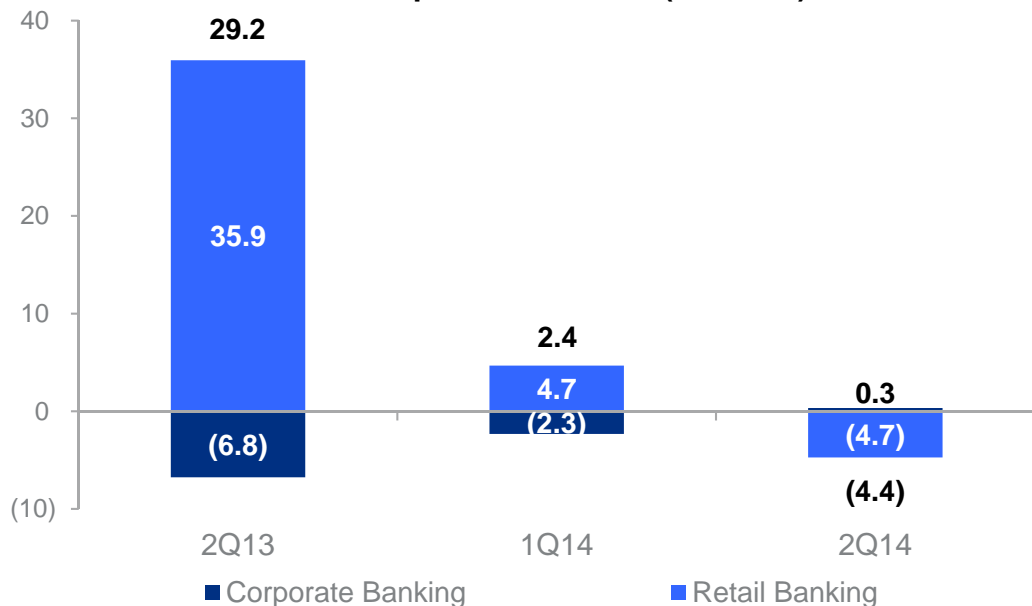
Expenses and depreciation (PLN MM) by type



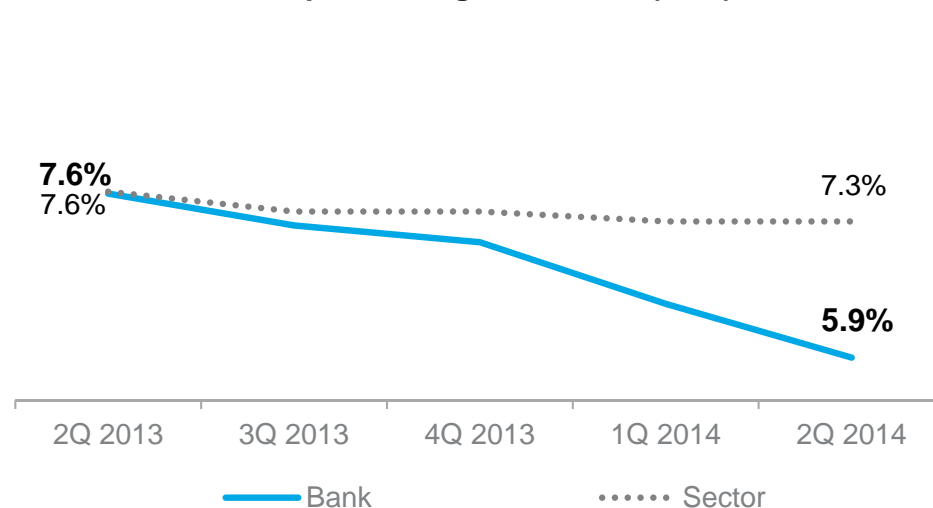
- **The QoQ increase in Bank's expenses** mainly due to:
  - higher sales supporting expenses in retail banking (staff, product distribution and marketing expenses)
  - higher technology expenses
  - higher cost of capital awards
- **Cost / Income ratio** at **50%** in 2Q 2014

# Stable situation in the area of credit risk

Net impairment losses (PLN MM)

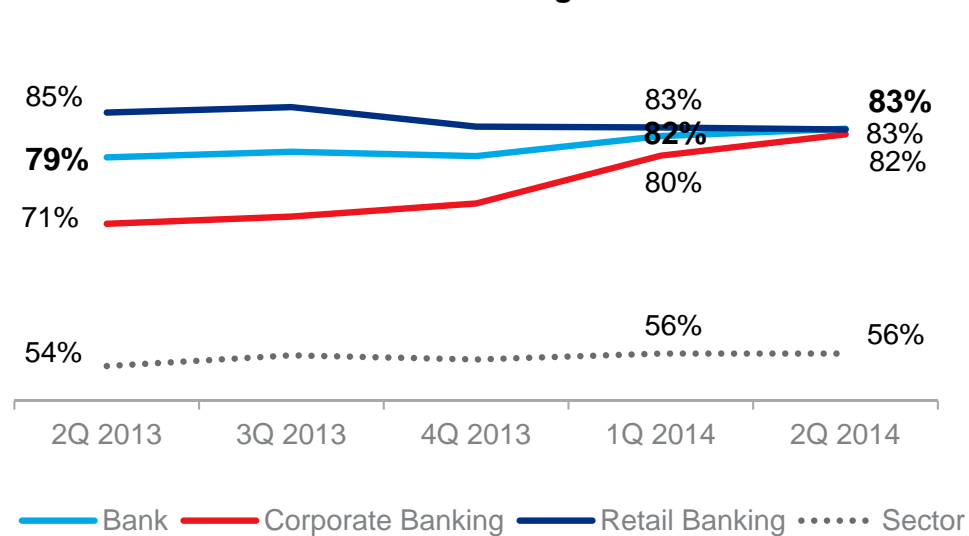


Non-performing loans ratio (NPL)



NPL ratio for the Bank presented excluding reverse repo receivables.  
NPL ratio for the sector as of May 31, 2014. No data for June available.

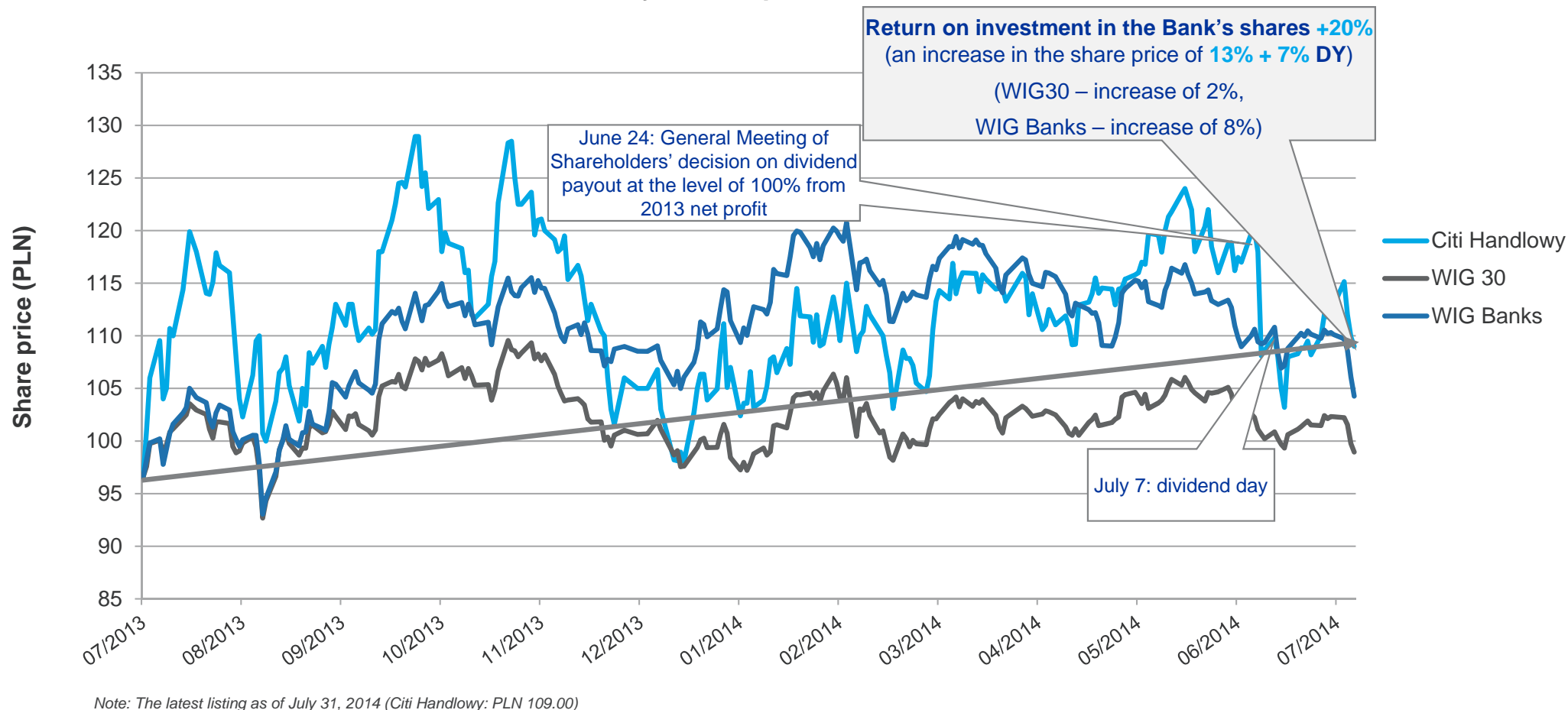
Provision coverage ratio



- A positive trend in Retail Banking continued – **stabilization of credit cards' and cash loans' portfolio quality**
- **The decrease in net impairment losses in institutional banking** as a result of credit portfolio quality improvement in MME and SME segments
- Further **NPL** ratio improvement
- **Provision coverage ratio** better than sector

# Change in Bank's share price in the latest 12 months horizon

## Citi Handlowy's share price vs. main indices



## Dividends paid by Citi Handlowy since it's debut on the WSE

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Dividend payout ratio</b>	23%	31%	39%	64%	100%	100%	100%	100%*	80%	86%	77%	0%	94%	100%	50%	75%	100%
<b>Dividend yield</b>	3.1%	1.9%	3.8%	1.7%	2.3%	2.6%	3.1%	18.7%	5.6%	5.8%	4.5%	-	7.1%	7.1%	3.3%	7.1%	7.0%

\* Payout ratio related only to 2004 net profit, excluding special dividend

## Appendix

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# Income statement – Bank

PLN MM	2Q13	3Q13	4Q13	1Q14	2Q14	2Q14 vs. 1Q14		2Q14 vs. 2Q13	
						PLN MM	%	PLN MM	%
<b>Net interest income</b>	<b>311</b>	<b>306</b>	<b>298</b>	<b>293</b>	<b>302</b>	<b>9</b>	<b>3%</b>	<b>(8)</b>	<b>(3%)</b>
Interest income	412	402	390	379	388	8	2%	(25)	(6%)
Interest expenses	(102)	(96)	(91)	(86)	(86)	1	(1%)	16	(16%)
<b>Net fee and commission income</b>	<b>165</b>	<b>153</b>	<b>161</b>	<b>157</b>	<b>167</b>	<b>10</b>	<b>6%</b>	<b>2</b>	<b>1%</b>
Dividend income	4	0	0	-	6	6	-	1	34%
Gains on AFS debt securities	81	32	20	40	66	26	66%	(16)	(19%)
FX and professional market	117	28	83	125	106	(19)	(16%)	(11)	(10%)
Hedge accounting	-	-	2	(1)	-	1	-	-	-
<b>Treasury</b>	<b>198</b>	<b>60</b>	<b>105</b>	<b>164</b>	<b>172</b>	<b>7</b>	<b>4%</b>	<b>(27)</b>	<b>(14%)</b>
Net gain on capital investment instruments	-	-	-	3	-	(3)	-	-	-
Net other operating income	0	(1)	(9)	3	5	1	40%	4	-
<b>Revenue</b>	<b>679</b>	<b>519</b>	<b>555</b>	<b>621</b>	<b>651</b>	<b>31</b>	<b>5%</b>	<b>(28)</b>	<b>(4%)</b>
Expenses	(318)	(296)	(357)	(296)	(310)	(14)	5%	7	(2%)
Depreciation	(13)	(17)	(19)	(18)	(18)	0	(3%)	(4)	33%
<b>Expenses and depreciation</b>	<b>(331)</b>	<b>(313)</b>	<b>(376)</b>	<b>(314)</b>	<b>(328)</b>	<b>(14)</b>	<b>4%</b>	<b>3</b>	<b>(1%)</b>
<b>Operating margin</b>	<b>348</b>	<b>206</b>	<b>179</b>	<b>306</b>	<b>323</b>	<b>17</b>	<b>5%</b>	<b>(25)</b>	<b>(7%)</b>
<b>Net impairment losses</b>	<b>29</b>	<b>(2)</b>	<b>19</b>	<b>2</b>	<b>(4)</b>	<b>(7)</b>	<b>-</b>	<b>(34)</b>	<b>-</b>
<b>EBIT</b>	<b>376</b>	<b>205</b>	<b>198</b>	<b>309</b>	<b>319</b>	<b>10</b>	<b>3%</b>	<b>(57)</b>	<b>(15%)</b>
Corporate income tax	(75)	(40)	(46)	(61)	(53)	8	(14%)	23	(30%)
<b>Net profit</b>	<b>300</b>	<b>165</b>	<b>152</b>	<b>248</b>	<b>266</b>	<b>19</b>	<b>8%</b>	<b>(34)</b>	<b>(11%)</b>
<b>C/I ratio</b>	<b>49%</b>	<b>60%</b>	<b>68%</b>	<b>51%</b>	<b>50%</b>				

# Corporate Banking – income statement

PLN MM	2Q13	3Q13	4Q13	1Q14	2Q14	2Q14 vs. 1Q14		2Q14 vs. 2Q13	
						PLN MM	%	PLN MM	%
<b>Net interest income</b>	<b>147</b>	<b>147</b>	<b>136</b>	<b>132</b>	<b>137</b>	<b>5</b>	<b>4%</b>	<b>(10)</b>	<b>(7%)</b>
Interest income	220	221	208	199	203	4	2%	(17)	(8%)
Interest expenses	(74)	(74)	(72)	(67)	(66)	1	(2%)	8	(10%)
<b>Net fee and commission income</b>	<b>75</b>	<b>66</b>	<b>73</b>	<b>69</b>	<b>73</b>	<b>4</b>	<b>6%</b>	<b>(2)</b>	<b>(3%)</b>
Dividend income	1	0	0	-	2	2	-	1	63%
Gains on AFS debt securities	81	32	20	40	66	26	66%	(16)	(19%)
FX and professional market	108	19	75	118	98	(20)	(17%)	(10)	(10%)
Hedge accounting	-	-	2	(1)	-	1	-	-	-
<b>Treasury</b>	<b>190</b>	<b>51</b>	<b>97</b>	<b>157</b>	<b>164</b>	<b>7</b>	<b>4%</b>	<b>(26)</b>	<b>(14%)</b>
Net gain on capital investment instruments	-	-	-	3	-	(3)	-	-	-
Net other operating income	5	5	2	11	9	(2)	(16%)	4	85%
<b>Revenue</b>	<b>418</b>	<b>269</b>	<b>308</b>	<b>371</b>	<b>385</b>	<b>14</b>	<b>4%</b>	<b>(33)</b>	<b>(8%)</b>
Expenses	(135)	(129)	(139)	(129)	(137)	(8)	6%	(2)	1%
Depreciation	(6)	(6)	(6)	(6)	(6)	1	(8%)	1	(10%)
<b>Expenses and depreciation</b>	<b>(142)</b>	<b>(135)</b>	<b>(146)</b>	<b>(135)</b>	<b>(142)</b>	<b>(7)</b>	<b>5%</b>	<b>(1)</b>	<b>1%</b>
<b>Operating margin</b>	<b>276</b>	<b>134</b>	<b>162</b>	<b>236</b>	<b>243</b>	<b>7</b>	<b>3%</b>	<b>(34)</b>	<b>(12%)</b>
Net impairment losses	(7)	3	(8)	(2)	0	3	-	7	-
<b>EBIT</b>	<b>269</b>	<b>137</b>	<b>154</b>	<b>234</b>	<b>243</b>	<b>10</b>	<b>4%</b>	<b>(25)</b>	<b>(9%)</b>
<b>C/I ratio</b>	<b>34%</b>	<b>50%</b>	<b>47%</b>	<b>36%</b>	<b>37%</b>				



# Retail Banking – income statement

PLN MM	2Q13	3Q13	4Q13	1Q14	2Q14	2Q14 vs. 1Q14		2Q14 vs. 2Q13	
						PLN MM	%	PLN MM	%
<b>Net interest income</b>	<b>164</b>	<b>159</b>	<b>162</b>	<b>161</b>	<b>165</b>	<b>4</b>	<b>2%</b>	<b>1</b>	<b>1%</b>
Interest income	192	182	182	180	185	4	2%	(7)	(4%)
Interest expenses	(28)	(22)	(19)	(19)	(20)	(1)	3%	9	(30%)
<b>Net fee and commission income</b>	<b>90</b>	<b>87</b>	<b>88</b>	<b>88</b>	<b>94</b>	<b>6</b>	<b>7%</b>	<b>4</b>	<b>5%</b>
Dividend income	3	-	-	-	4	4	-	1	22%
FX and professional market	9	9	8	8	8	0.2	3%	(1)	(9%)
Net other operating income	(5)	(6)	(12)	(8)	(4)	3	(40%)	0.1	(2%)
<b>Revenue</b>	<b>261</b>	<b>249</b>	<b>247</b>	<b>250</b>	<b>266</b>	<b>17</b>	<b>7%</b>	<b>5</b>	<b>2%</b>
Expenses	(183)	(167)	(218)	(167)	(174)	(7)	4%	9	(5%)
Depreciation	(7)	(11)	(12)	(12)	(12)	(0)	0%	(5)	73%
<b>Expenses and depreciation</b>	<b>(189)</b>	<b>(178)</b>	<b>(230)</b>	<b>(179)</b>	<b>(186)</b>	<b>(7)</b>	<b>4%</b>	<b>4</b>	<b>(2%)</b>
<b>Operating margin</b>	<b>71</b>	<b>72</b>	<b>16</b>	<b>70</b>	<b>80</b>	<b>10</b>	<b>14%</b>	<b>9</b>	<b>13%</b>
<b>Net impairment losses</b>	<b>36</b>	<b>(5)</b>	<b>27</b>	<b>5</b>	<b>(5)</b>	<b>(9)</b>	<b>-</b>	<b>(41)</b>	<b>-</b>
<b>EBIT</b>	<b>107</b>	<b>67</b>	<b>44</b>	<b>75</b>	<b>75</b>	<b>0.5</b>	<b>1%</b>	<b>(32)</b>	<b>(30%)</b>
<b>C/I ratio</b>	<b>73%</b>	<b>71%</b>	<b>93%</b>	<b>72%</b>	<b>70%</b>				

# Balance sheet

PLN B	End of period					2Q14 vs. 1Q14		2Q14 vs. 2Q13	
	2Q13	3Q13	4Q13	1Q14	2Q14	PLN B	%	PLN B	%
<b>Cash and balances with the Central Bank</b>	<b>0.8</b>	<b>2.4</b>	<b>0.8</b>	<b>2.0</b>	<b>1.2</b>	<b>(0.8)</b>	<b>(38%)</b>	<b>0.5</b>	<b>61%</b>
Amounts due from banks	2.3	2.5	3.5	4.1	4.6	0.5	13%	2.3	101%
Financial assets held-for-trading	8.9	6.4	5.8	7.6	7.0	(0.6)	(8%)	(1.9)	(21%)
<b>Debt securities available-for-sale</b>	<b>14.1</b>	<b>15.8</b>	<b>17.6</b>	<b>13.4</b>	<b>12.9</b>	<b>(0.5)</b>	<b>(4%)</b>	<b>(1.3)</b>	<b>(9%)</b>
<b>Customer loans</b>	<b>17.0</b>	<b>16.8</b>	<b>15.2</b>	<b>18.0</b>	<b>17.0</b>	<b>(1.0)</b>	<b>(5%)</b>	<b>(0.0)</b>	<b>(0%)</b>
<b>Financial sector entities</b>	<b>2.4</b>	<b>2.1</b>	<b>0.7</b>	<b>2.6</b>	<b>1.2</b>	<b>(1.4)</b>	<b>(53%)</b>	<b>(1.2)</b>	<b>(50%)</b>
including reverse repo receivables	1.7	1.4	0.1	2.0	0.6	(1.4)	(71%)	(1.1)	(66%)
<b>Non-financial sector entities</b>	<b>14.6</b>	<b>14.8</b>	<b>14.5</b>	<b>15.4</b>	<b>15.8</b>	<b>0.4</b>	<b>3%</b>	<b>1.2</b>	<b>8%</b>
<b>Corporate Banking</b>	<b>9.4</b>	<b>9.6</b>	<b>9.2</b>	<b>10.0</b>	<b>10.1</b>	<b>0.1</b>	<b>1%</b>	<b>0.8</b>	<b>8%</b>
<b>Retail Banking</b>	<b>5.2</b>	<b>5.2</b>	<b>5.3</b>	<b>5.4</b>	<b>5.6</b>	<b>0.3</b>	<b>5%</b>	<b>0.4</b>	<b>8%</b>
Unsecured receivables	4.2	4.2	4.2	4.3	4.5	0.2	6%	0.3	6%
Credit cards	1.9	2.0	2.0	2.0	2.1	0.1	6%	0.1	6%
Cash loans	2.2	2.1	2.2	2.2	2.4	0.1	6%	0.1	6%
Other unsecured receivables	0.1	0.1	0.1	0.1	0.1	0.0	19%	0.0	11%
Mortgage	1.0	1.0	1.1	1.1	1.1	0.0	4%	0.1	13%
Other assets	3.2	3.3	2.5	2.9	2.7	(0.2)	(8%)	(0.5)	(16%)
<b>Total assets</b>	<b>46.3</b>	<b>47.2</b>	<b>45.4</b>	<b>48.0</b>	<b>45.4</b>	<b>(2.6)</b>	<b>(5%)</b>	<b>(0.9)</b>	<b>(2%)</b>
Liabilities due to banks	7.1	7.6	6.4	6.9	4.1	(2.8)	(41%)	(3.1)	(43%)
Financial liabilities held-for-trading	4.8	5.4	4.2	5.2	5.8	0.6	11%	0.9	19%
<b>Financial liabilities due to customers</b>	<b>25.0</b>	<b>25.4</b>	<b>26.6</b>	<b>26.6</b>	<b>26.3</b>	<b>(0.3)</b>	<b>(1%)</b>	<b>1.3</b>	<b>5%</b>
<b>Financial sector entities - deposits</b>	<b>4.2</b>	<b>3.9</b>	<b>3.3</b>	<b>4.1</b>	<b>4.6</b>	<b>0.6</b>	<b>14%</b>	<b>0.4</b>	<b>9%</b>
<b>Non-financial sector entities - deposits</b>	<b>20.0</b>	<b>20.5</b>	<b>22.8</b>	<b>21.1</b>	<b>21.2</b>	<b>0.1</b>	<b>1%</b>	<b>1.2</b>	<b>6%</b>
<b>Corporate Banking</b>	<b>13.3</b>	<b>13.7</b>	<b>15.9</b>	<b>13.8</b>	<b>13.9</b>	<b>0.0</b>	<b>0%</b>	<b>0.6</b>	<b>4%</b>
<b>Retail Banking</b>	<b>6.8</b>	<b>6.8</b>	<b>6.9</b>	<b>7.2</b>	<b>7.4</b>	<b>0.1</b>	<b>2%</b>	<b>0.6</b>	<b>9%</b>
Other financial liabilities	0.7	0.9	0.5	1.4	0.5	(1.0)	(68%)	(0.2)	(32%)
Other liabilities	2.4	1.7	0.9	1.8	2.3	0.5	28%	(0.1)	(3%)
<b>Total liabilities</b>	<b>39.3</b>	<b>40.1</b>	<b>38.1</b>	<b>40.5</b>	<b>38.4</b>	<b>(2.0)</b>	<b>(5%)</b>	<b>(0.8)</b>	<b>(2%)</b>
<b>Equity</b>	<b>7.0</b>	<b>7.1</b>	<b>7.3</b>	<b>7.5</b>	<b>6.9</b>	<b>(0.6)</b>	<b>(8%)</b>	<b>(0.1)</b>	<b>(1%)</b>
<b>Total liabilities &amp; equity</b>	<b>46.3</b>	<b>47.2</b>	<b>45.4</b>	<b>48.0</b>	<b>45.4</b>	<b>(2.6)</b>	<b>(5%)</b>	<b>(0.9)</b>	<b>(2%)</b>
<b>Loans / Deposits ratio</b>	<b>73%</b>	<b>72%</b>	<b>64%</b>	<b>73%</b>	<b>74%</b>				
<b>Capital Adequacy Ratio</b>	<b>17.5%</b>	<b>16.7%</b>	<b>17.5%</b>	<b>16.6%</b>	<b>17.0%</b>				
<b>NPL*</b>	<b>6.9%</b>	<b>6.7%</b>	<b>7.0%</b>	<b>5.8%</b>	<b>5.8%</b>				

\*as reported, incl. reverse repo  
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