

Warsaw, 6th of February 2012

Subject: Initial consolidated financial statement of the Capital Group of Bank Handlowy w Warszawie S.A. for the fourth quarter of 2011

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 19 February 2009 (Journal of Laws No. 33, item 259, as further amended).

This consolidated report presents initial financial data for the fourth quarter of 2011 of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent and its subordinated entities.

In the fourth quarter of 2011 the Group reported consolidated net profit of PLN 221.1 million, which translates to PLN 26.3 million (i.e. 13.5%) increase as compared to the fourth quarter of 2010 and PLN 38.4 million (i.e. 21.0%) in comparison with net profit in the third quarter of 2011. Profit before tax in the fourth quarter of 2011 amounting to PLN 274.0 million increased by PLN 34.4 million (i.e. 14.4%) as compared to the corresponding period in 2010 and by PLN 41.2 million as compared to the third quarter of 2011. The Group revenue increased by PLN 31.9 million (i.e. 5.3%) yoy and PLN 25.7 million (i.e. 4.2%) QoQ and reached the level of PLN 634.0 million in the fourth quarter 2011.

Below we present a summary of key financial ratios and data for the fourth quarter of 2011 compared to the fourth quarter of 2010 and the third quarter of 2011.

Summary

- **Net profit:** PLN 221.1 million (an increase of PLN 26.3 million, i.e. 13.5% YoY and PLN 38.4 million, i.e. 21.0% QoQ)
- **Operating margin:** PLN 275.9 million (an increase of PLN 25.0 million, i.e. 10.0% YoY and PLN 26.6 million, i.e. 11.0% QoQ)
- **Operating income:** PLN 634.0 million (an increase of PLN 31.9 million i.e. 5.3% YoY and PLN 25.7 million, i.e. 4.2% QoQ)
- **Operating costs and depreciation:** PLN 358.2 million (an increase of PLN 6.9 million, i.e. 2.0% YoY and a decrease of PLN 0.9 million i.e. 0.2% QoQ)
- **The key ratios:**
 - Return on equity (**ROE**): 12.9% (a decrease of 0.1 p.p. YOY and an increase of 0.5 p.p. QoQ),
 - Return on assets (**ROA**): 1.6% (a decrease of 0.3 p.p. YoY and an increase of 0.01 p.p. QoQ),
 - **Cost/Income ratio:** 56% (a decrease of 2 p.p. YOY and 3 p.p. QoQ),
- **Capital adequacy ratio** 16.35% (a decrease of 2.5 p.p. YoY and 0.2 p.p. QoQ).

Income Statement

PLN '000	01.10 –	01.10 -	Change	
	31.12.2011	31.12.2010	PLN '000	%
Net interest income	382,410	371,774	10,636	2.9%
Net commission income	149,976	174,538	(24,562)	(14.1%)
Dividend income	-	124	(124)	(100.0%)
Net income on trade financial instruments and revaluation	80,055	51,704	28,351	54.8%
Net gain on debt investment securities	11 208	17,415	(6,207)	(35.6%)
Net gain on capital investment instruments	-	1,372	(1,372)	(100.0%)
Net other operating income	10,399	(14,796)	25,195	(170.3%)

PLN '000	01.10 – 31.12.2011	01.10 - 31.12.2010	Change	
			PLN '000	%
Total income	634,048	602,131	31,917	5.3%
General administrative expenses and depreciation	(358,192)	(351,304)	(6,888)	2.0%
Profit / (loss) on sale of fixed assets	(50)	1,298	(1,348)	(103.9%)
Net impairment losses	(3,014)	(13,062)	10,048	(76.9%)
Share of profits (losses) of entities accounted using the equity method	1,164	452	712	157.5%
Profit before tax	273,956	239,515	34,441	14.4%
Corporate income tax	(52,876)	(44,710)	(8,166)	18.3%
Net profit	221,080	194,805	26,275	13.5%

The main determinants of the Group's operating results in the fourth quarter of 2011 as compared to corresponding period in 2010 were:

- net interest income amounting to PLN 382.4 million as compared to PLN 371.8 million recorded in the fourth quarter of 2010 (an increase of PLN 10.6 million, i.e. 2.9%), stemming primarily from higher interest income from debt securities available-for-sale (due to an increase in portfolio of PLN 4.6 billion, i.e. 35.3%, coupled with higher profitability of securities). Net interest income was further improved by an increase of non-financial sector loans, which constitute approximately 60% of total interest income. An increase was driven by significant growth of corporate loan volume in 2011 (37% YoY) and increase in interest rates on credit cards following hikes of the Central Bank interest rates. On the other side, in the fourth quarter of 2011 interest costs related to liabilities to financial and non-financial sector increased as a result of deposit growth of individual and corporate customers as well as growing interest rates in 2011, among others.

In comparison on the third quarter of 2011 net interest income increased by PLN 25.8 million i.e. 7.2%, primarily as a result of higher interest income (on customer assets and debt securities available for sale).

Interest income

PLN '000	01.10 – 31.12.2011	01.10 - 31.12.2010	Change	
			PLN '000	%
Interest and similar income from:				
Balances with the Central Bank	9,522	6,797	2,725	40.1%
Amounts due from banks	10,233	6,366	3,867	60.7%
Amounts due from customers, including:	305,889	292,216	13,673	4.7%
financial sector entities	6,917	4,460	2,457	55.1%
non-financial sector entities, including:	298,972	287,756	11,216	3.9%
credit cards	97,464	93 58793587	3,877	4.1%
Debt securities available-for-sale	172,849	145,875	26,974	18.5%
Debt securities held-for-trading	13,103	34,309	(21,206)	(61.8%)
Total	511,596	485,563	26,033	5.4%
Interest expense and similar charges on:				
Balances with the Central Bank	(1)	(1,051)	1,050	(99.9%)
Amounts due to banks	(10,054)	(8,939)	(1,115)	12.5%
Amounts due to financial sector entities (excl. banks')	(20,198)	(14,100)	(6,098)	43.2%
Amounts due to non-financial sector entities	(95,723)	(87,297)	(8,426)	9.7%
Loans and advances received	(2,947)	(2,336)	(611)	26.2%
Debt securities issuance	(263)	(66)	(197)	298.5%
Total	(129,186)	(113,789)	(15,397)	13.5%
Net interest income	382,410	371,774	10,636	2.9%

- net fee and commission income amounting to PLN 150.0 million as compared to PLN 174.5 million in the fourth quarter of 2010 – decreased by PLN 24.6 million i.e. 14.1%, as a result of decline in fee income related to the capitals markets, i.e. from brokerage activity due to decrease in equity trading turnover on the Warsaw Stock Exchange (drop by 17.3% over the corresponding period of the previous year), from the sale of investment and insurance products (customers were choosing safer products with lower margin for the Bank) and from custody. A slight decrease in fee income was also recorded in credit and payment cards line as a result of higher expenses due to increased value of sales on credit cards and a higher share of co-branded cards in the cards' portfolio (i.a. MasterCard World, Ultime and Wizzair credit cards introduced in 2011). However, on a quarterly basis fees on cards increased by PLN 1.5 million, i.e. 3.2%, due to the higher value of sales in the fourth quarter of 2011 which boosted fee income line and as a result of changes to the Table of Fees and Charges, introduced in October 2011.

Fee and commission income

PLN '000	01.10 – 31.12.2011	01.10 - 31.12.2010	Change	
			PLN '000	%
Fee and commission income				
Insurance and investment products	30,029	36,356	(6,327)	(17.4%)
Payment and credit cards	64,688	61,302	3,386	5.5%
Payment orders	28,037	30,506	(2,469)	(8.1%)
Custody services	20,225	26,177	(5,952)	(22.7%)
Cash loans	2,141	2,756	(615)	(22.3%)
Brokerage operations	14,856	20,769	(5,913)	(28.5%)
Account cash management services	7,249	7,474	(225)	(3.0%)
Off-balance-sheet guarantee liabilities	4,247	3,584	663	18.5%
Off-balance-sheet financial liabilities	1,641	1,797	(156)	(8.7%)
Other	9,310	7,286	2,024	27.8%
Total	182,423	198,007	(15,584)	(7.9%)
Fee and commission expense				
Payment and credit cards	(17,368)	(11,503)	(5,865)	51.0%
Brokerage operations	(6,691)	(5,394)	(1,297)	24.0%
Fees paid to the National Depository for Securities (KDPW)	(4,051)	(3,697)	(354)	9.6%
Brokerage fees	(1,264)	(983)	(281)	28.6%
Other	(3,073)	(1,892)	(1,181)	62.4%
Total	(32,447)	(23,469)	(8,978)	38.3%
Net fee and commission income				
Insurance and investment products	30,029	36,356	(6,327)	(17.4%)
Payment and credit cards	47,320	49,799	(2,479)	(5.0%)
Payment orders	28,037	30,506	(2,469)	(8.1%)
Custody services	20,225	26,177	(5,952)	(22.7%)
Cash loans	2,141	2,756	(615)	(22.3%)
Brokerage operations	8,165	15,375	(7,210)	(46.9%)
Account cash management services	7,249	7,474	(225)	(3.0%)
Off-balance-sheet guarantee liabilities	4,247	3,584	663	18.5%
Off-balance-sheet financial liabilities	1,641	1,797	(156)	(8.7%)
Fees paid to the National Depository for Securities (KDPW)	(4,051)	(3,697)	(354)	9.6%
Brokerage fees	(1,264)	(983)	(281)	28.6%
Other	6,237	5,394	843	15.6%
Total	149,976	174,538	(24,562)	(14.1%)

- net income on trade financial instruments and revaluation amounting to PLN 80.1 million as compared to PLN 51.7 million in the fourth quarter of 2010, i.e. an increase of PLN 28.4 million stemming from the higher result on both customer activity and the Bank's proprietary management;

- net gain on investment debt securities amounting to PLN 11.2 million as compared to PLN 17.4 million in the fourth quarter of 2010;
- net other operating income amounting to PLN 10.4 million as compared to PLN -14.8 million in the fourth quarter of 2010, i.e. an increase of PLN 25.2 million, resulting from reimbursement of interest on overpaid CIT tax to the Tax Office in the amount of PLN 17 million. Overpayment resulted from a change in the interpretation of tax rules related to the proper moment of taxation of revenues and expenses from derivative instruments. The overpayment reimbursement was suspended till the final ruling of the Supreme Administrative Court. Therefore, the Bank was paid interests on the overpayment. On the other hand, in the fourth quarter of 2010, the Bank made a provision for VAT in Handlowy-Leasing Sp. z.o.o. The provision concerned re-invoicing of the insurance of risk assets as a consequence of changing interpretations of existing legal regulations;
- in comparison with the fourth quarter of 2010, in the fourth quarter of 2011, the Group reported a slight increase in general administrative expenses and overheads together with depreciation expenses by PLN 6.9 million, i.e. 2.0%, due to higher staff expenses (a low level in the fourth quarter of 2010 was a result of provision release for jubilee rewards due to the change in the Bank's policy in this area). At the same time, there was a decrease in general and administrative expenses by PLN 1.3 million i.e. 0.8%, which resulted from lower spending on advertising and marketing, training costs, and expenses related to rental and property maintenance. The increase in other general and administrative expenses by PLN 4.0 million was a result of increased contributions to Bank Guarantee Fund, among others. In comparison with the third quarter of 2011 operating costs and overheads including depreciation recorded a slight decrease (about PLN 0.9 million i.e. 0.2%), despite an increase in charges for telecommunication and hardware due to the development of IT platform in the Retail Banking.

General administrative expenses and depreciation expense

PLN '000	01.10 – 31.12.2011	01.10 - 31.12.2010	Change	
			PLN '000	%
Staff expenses	(168,318)	(160,727)	(7,591)	4.7%
Remuneration costs	(138,317)	(144,761)	6,444	(4.5%)
Bonuses and rewards	(30,001)	(15,966)	(14,035)	87.9%
Administrative expenses	(174,317)	(175,660)	1,343	(0.8%)
Telecommunication fees and hardware purchase costs	(47,522)	(40,996)	(6,526)	15.9%
Advisory, audit, consulting and other external services' costs	(24,017)	(20,060)	(3,957)	19.7%
Building maintenance and rent costs	(27,730)	(29,953)	2,223	(7.4%)
Marketing costs	(11,061)	(17,198)	6,137	(35.7%)
Cash management services, KIR service and other transactional costs	(13,357)	(15,964)	2,607	(16.3%)
Costs of external services concerning distribution of banking products	(13,421)	(13,762)	341	(2.5%)
Postal services, office supplies and printmaking costs	(7,818)	(9,145)	1,327	(14.5%)
Training and education costs	(1,503)	(4,726)	3,223	(68.2%)
Other costs	(27,888)	(23,856)	(4,032)	16.9%
Depreciation/amortization of tangible and intangible assets	(15,557)	(14,917)	(640)	4.3%
Total	(358,192)	(351,304)	(6,888)	2.0%

- net impairment losses of PLN -3.0 million as compared to PLN -13.1 million in the fourth quarter of 2010 (an increase of PLN 10.0 million, i.e. 77%) as a result of significant improvement of Retail Banking portfolio quality (mainly due to the higher level of overdue repayments of cash loans and credit cards in the fourth quarter of 2011). In the Corporate Banking there was a decrease of net releases of provisions for impairment of financial assets, due to the lower level of recoveries from prior provisions for loans with identified impaired value assessed on individual basis.

Net impairment losses improved also in comparison to the third quarter of 2011 (by PLN 13.5 million i.e. 81.7%). This was associated with significantly lower level of provisions in the Retail Banking.

Net impairment losses

PLN '000	01.10 –	01.10 -	Change	
	31.12.2011	31.12.2010	PLN '000	%
Net impairment write-downs of financial assets				
Impairment write-downs:				
Amounts due from banks	(108)	(1,062)	954	(89.8%)
Amounts due from customers	(76,657)	(109,547)	32,890	(30.0%)
Amounts due from matured derivative transactions	(19)	(5,675)	5,656	(99.7%)
Other	(3,333)	(6,220)	2,887	(46.4%)
	(80,117)	(122,504)	42,387	(34.6%)
Reversals of impairment write-downs:				
Amounts due from banks	133	697	(564)	(80.9%)
Amounts due from customers	71,168	103,296	(32,128)	(31.1%)
Amounts due from matured derivative transactions	129	5,173	(5,044)	(97.5%)
	71,430	109,166	(37,736)	(34.6%)
	(8,687)	(13,338)	4,651	(34.9%)
Net (charges to)/ releases of provisions for off-balance liabilities				
Charges to provisions for off-balance sheet commitments	(7,837)	(11,677)	3,840	(32.9%)
Releases of provisions for off-balance sheet commitments	13,510	11,953	1,557	13.0%
	5,673	276	5,397	1955.4%
Net impairment losses	(3,014)	(13,062)	10,048	(76.9%)

Balance sheet

At the end of December 31st of 2011 total assets amounted to PLN 42,278.2 million and increased by 12.7%, as compared to the end of 2010. The biggest impact on the assets' increase had the following elements:

- increase of debt securities available for sale by PLN 4.6 billion (i.e. 35.3%), mainly caused by the growth of position in the NBP cash bills and bonds portfolio growth (including the purchase of bonds for an amount of PLN 1 billion issued by Bank Gospodarstwa Krajowego);
- increase of receivables due to customers by PLN 2.4 billion, i.e. 20%, as an effect of a significant growth i.e. by 37.1%, in loans to corporate customers;
- decrease of "Cash and balances with Central Bank" line by PLN 2.2 billion, i.e. 69.4%;
- decrease of amounts due from banks by PLN 1.7 billion, i.e. 75.9%;
- increase of financial assets held for trading by PLN 1.8 billion, i.e. 45.3%, both due to growth in the value of derivative instruments (interest rate swaps and currency swaps) as well as increase of bonds portfolio.

On the liabilities side, the biggest change was recorded in liabilities towards banks, which increased by PLN 2.6 billion as compared to the end of 2010 and in the financial liabilities held-for-trading (growth by PLN 2.0 billion i.e. 72.6%, mainly within interest rate derivatives). Moreover, in the fourth quarter of 2011 there was reported an increase of customers deposits by PLN 0.3 billion (or 1.4%). The growth mainly occurred in the area of corporate customers and was related to the higher balance of term deposits (change by PLN 2.0 billion i.e. 28.1%). In the area of individual customers, the increase was reported on current accounts (by PLN 2.0 billion or 9.6%), which confirms the consistent implementation of strategy focusing on operating accounts.

At the same time, deposits from financial sector decreased by PLN 0.9 billion in total (or 29.4%).

Balance sheet

PLN '000	State as at		Change	
	31.12.2011	31.12.2010	PLN '000	%
ASSETS				
Cash and balances with the Central Bank	979,616	3,206,554	(2,226,938)	(69.4%)
Amounts due from banks	548,256	2,273,139	(1,724,883)	(75.9%)
Financial assets held-for-trading	5,805,044	3,995,916	1,809,128	45.3%
Debt securities available-for-sale	17,625,355	13,029,254	4,596,101	35.3%
Capital investments valued at equity method	57,945	56,332	1,613	2.9%
Other capital investments	24,912	23,949	963	4.0%
Amounts due from customers	14,719,473	12,270,109	2,449,364	20.0%
Tangible fixed assets	457,929	475,373	(17,444)	(3.7%)
Intangible assets	1,292,067	1,285,757	6,310	0.5%
Income tax assets	338,757	321,669	17,088	5.3%
Other assets	403,182	569,587	(166,405)	(29.2%)
Fixed assets held-for-sale	25,662	9,901	15,761	159.2%
Total assets	42,278,198	37,517,540	4,760,658	12.7%
LIABILITIES				
Due to banks	6,011,378	3,431,049	2,580,329	75.2%
Financial liabilities held-for-trading	4,840,447	2,804,437	2,036,010	72.6%
Due to customers	24,095,847	23,865,762	230,085	1.0%
Due to debt securities issuance	25,336	11,533	13,803	119.7%
Provisions	34,914	32,240	2,674	8.3%
Income tax liabilities	72,921	-	72,921	-
Other liabilities	752,874	879,584	(126,710)	(14.4%)
Total liabilities	35,833,717	31,024,605	4,809,112	15.5%
EQUITY				
Share capital	522,638	522,638	-	-
Share premium	3,009,396	3,031,149	(21,753)	(0.7%)
Revaluation reserve	(82,294)	(44,848)	(37,446)	83.5%
Other reserves	2,264,082	2,248,707	15,375	0.7%
Retained earnings	730,659	735,289	(4,630)	(0.6%)
Total equity	6,444,481	6,492,935	(48,454)	(0.7%)
Total liabilities and equity	42,278,198	37,517,540	4,760,658	12.7%

Receivables from customers, divided into at risk vs. not at risk of impairment (reverse repo transactions included)

PLN '000	31.12.2011	31.12.2010	Change	
			PLN '000	%
Not at risk of impairment, including::	14,356,929	11,628,710	2,728,219	23.5%
non-financial sector	13,347,525	10,954,403	2,393,122	21.9%
corporate customers*	8,331,622	5,717,287	2,614,335	45.7%
individual customers	5,015,903	5,237,116	(221,213)	(4.2%)
At risk of impairment, including:	1,481,786	1,878,129	(396,343)	(21.1%)
non-financial sector	1,462,789	1,854,208	(391,419)	(21.1%)

corporate customers*	616,513	971,044	(354,531)	(36.5%)
individual customers	846,276	883,164	(36,888)	(4.2%)
Dues related to matured derivative transactions	116,547	122,191	(5,644)	(4.6%)
Total gross receivables, including:	15,955,262	13,629,030	2,326,232	17.1%
non-financial sector	14,810,314	12,808,611	2,001,703	15.6%
corporate customers*	8,948,135	6,688,331	2,259,804	33.8%
individual customers	5,862,179	6,120,280	(258,101)	(4.2%)
Impairment, including:	1,235,789	1,358,921	(123,132)	(9.1%)
Dues related to matured derivative transactions	96,063	96,487	(424)	(0.4%)
Total	14,719,473	12,270,109	2,449,364	20.0%
Provision coverage ratio	76.9%	67.2%		
corporate customers*	60.0%	45.5%		
individual customers	88.7%	90.4%		

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

Receivables from customers, gross, divided into performing vs. non-performing (reverse repo transactions included)

PLN '000	31.12.2011	31.12.2010	Change	
			PLN '000	%
Performing loans, including:	14,425,608	11,970,900	2,454,708	20.5%
non-financial sector	13,416,204	11,296,593	2,119,611	18.8%
corporate clients*	8,331,622	5,963,712	2,367,910	39.7%
individual clients	5,084,582	5,332,881	(248,299)	(4.7%)
Non-performing loans, including:	1,413,107	1,535,939	(122,832)	(8.0%)
non-financial sector	1,394,110	1,512,018	(117,908)	(7.8%)
corporate clients*	616,513	724,619	(108,106)	(14.9%)
individual clients	777,597	787,399	(9,802)	(1.2%)
Dues related to matured derivative transactions	116,547	122,191	(5,644)	(4.6%)
Total gross customer receivables	15,955,262	13,629,030	2,326,232	17.1%
Non-performing loans ratio (NPL)	8.9%	11.4%		

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

Customer net receivables

PLN '000	31.12.2011	31.12.2010	Change	
			PLN '000	%
Amounts due from financial sector entities	1,009,315	676,700	332,615	49.2%
Amounts due from non-financial sector entities including:	13,710,158	11,593,409	2,116,749	18.3%
Corporate customers*	8,598,887	6,271,803	2,327,084	37.1%
Individual customers, including:	5,111,271	5,321,606	(210,335)	(4.0%)
credit cards	2,250,751	2,376,105	(125,354)	(5.3%)
cash loans	2,189,440	2,540,499	(351,059)	(13.8%)
Total net customer receivables	14,719,473	12,270,109	2,449,364	20.0%

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

Customer deposits

PLN '000	31.12.2011	31.12.2010	Change	
			PLN '000	%
Current accounts of:	11,603,890	12,649,236	(1,045,346)	(8.3%)
financial sector entities	267,645	736,905	(469,260)	(63.7%)
non-financial sector entities, including:	11,336,245	11,912,331	(576,086)	(4.8%)
corporate customers*, including:	6,599,506	7,591,802	(992,296)	(13.1%)
budgetary units	982,625	1,973,816	(991,191)	(50.2%)
individual customers	4,736,739	4,320,529	416,210	9.6%
Term deposits from:	12,297,808	10,916,664	1,381,144	12.7%
financial sector entities	1,963,538	2,422,941	(459,403)	(19.0%)
non-financial sector entities, including:	10,334,270	8,493,723	1,840,547	21.7%
corporate customers*, including:	9,088,660	7,096,639	1,992,021	28.1%
budgetary units	2,387,764	668,526	1,719,238	257.2%
individual customers	1,245,610	1,397,084	(151,474)	(10.8%)
Accrued interests	20,307	18,391	1,916	10.4%
Total customers deposits	23,922,005	23,584,291	337,714	1.4%

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

Ratios

At the end of December 2011 return on equity ratio reached the level of 12.9%, thus slightly decreased as compared to 13.0% recorded in the previous year. Return on assets ratio has also slightly declined to 1.6%, a lower level of the ratio compared to the fourth quarter of 2010 was mainly caused by a significant increase in total assets compared to the end of 2010 (by 13% YoY).

In terms of cost efficiency, Bank recorded an improvement in reducing the cost to income ratio in the fourth quarter of 2011 to 56%.

Crucially, interest margin remained at the same high level, positively highlighting the Bank against the banking sector. Net interest margin to total assets reached 3.8%, the same level as in the fourth quarter of 2010. Net interest margin on interest bearing assets increased from 4.4% to 4.6%.

Ratios	Q4 2011	Q3 2011	Q4 2010
ROE	12.9%	12.4%	13.0%
ROA	1.6%	1.6%	1.9%
Cost/Income	56%	59%	58%
Interest margin on total assets	3.8%	3.7%	3.8%
Interest margin on interest-bearing assets	4.6%	4.4%	4.4%
Non-financial sector loans/ Non-financial sector deposits	63%	72%	57%