



INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
FOR THE THIRD QUARTER 2016

NOVEMBER 2016

Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.
for the third quarter 2016

TRANSLATION

| SELECTED FINANCIAL DATA | PLN '000 | | EUR '000*** | |
|--|--|--|--|--|
| | Third quarter accruals | Third quarter accruals | Third quarter accruals | Third quarter accruals |
| | period from 01.01.16 to 30.09.16 | period from 01.01.15 to 30.09.15 | period from 01.01.16 to 30.09.16 | period from 01.01.15 to 30.09.15 |
| Data related to the interim condensed consolidated financial statements | | | | |
| Interest income | 925,368 | 892,917 | 211,813 | 214,721 |
| Fee and commission income | 486,710 | 534,377 | 111,406 | 128,502 |
| Profit before tax | 595,497 | 641,596 | 136,307 | 154,285 |
| Net profit | 471,266 | 508,114 | 107,871 | 122,187 |
| Comprehensive income | 470,051 | 267,173 | 107,593 | 64,247 |
| Increase/(decrease) in net cash | (1,268,949) | (377,480) | (290,457) | (90,773) |
| Total assets* | 41,976,336 | 49,506,792 | 9,734,772 | 11,617,222 |
| Amounts due to banks* | 2,371,866 | 6,963,561 | 550,062 | 1,634,063 |
| Amounts due to customers* | 30,520,264 | 31,586,303 | 7,077,983 | 7,412,015 |
| Equity | 6,709,120 | 6,707,016 | 1,555,918 | 1,582,366 |
| Ordinary shares | 522,638 | 522,638 | 121,205 | 123,304 |
| Number of shares (in pcs) | 130,659,600 | 130,659,600 | 130,659,600 | 130,659,600 |
| Book value per share (PLN/EUR) | 51.35 | 51.33 | 11.91 | 12.11 |
| Total capital adequacy ratio (%)* | 17.1 | 17.1 | 17.1 | 17.1 |
| Earnings per share (PLN / EUR) | 3.61 | 3.89 | 0.83 | 0.94 |
| Diluted earnings per share (PLN / EUR) | 3.61 | 3.89 | 0.83 | 0.94 |
| Data related to the interim condensed standalone financial statements | | | | |
| Interest income | 924,185 | 889,240 | 211,542 | 213,837 |
| Fee and commission income | 449,412 | 492,659 | 102,869 | 118,470 |
| Profit before tax | 597,679 | 635,863 | 136,806 | 152,907 |
| Net profit | 475,916 | 506,133 | 108,935 | 121,710 |
| Comprehensive income | 474,082 | 265,405 | 108,515 | 63,822 |
| Increase/(decrease) in net cash | (1,268,871) | (377,656) | (290,439) | (90,815) |
| Total assets* | 41,572,674 | 49,442,300 | 9,641,158 | 11,602,088 |
| Amounts due to banks* | 2,360,612 | 6,922,125 | 547,452 | 1,624,340 |
| Amounts due to customers* | 30,564,053 | 31,764,349 | 7,088,138 | 7,453,795 |
| Equity | 6,645,061 | 6,643,189 | 1,541,062 | 1,567,307 |
| Ordinary shares | 522,638 | 522,638 | 121,205 | 123,304 |
| Number of shares (in pcs) | 130,659,600 | 130,659,600 | 130,659,600 | 130,659,600 |
| Book value per share (PLN / EUR) | 50.86 | 50.84 | 11.79 | 12.00 |
| Total capital adequacy ratio (%)* | 16.9 | 16.8 | 16.9 | 16.8 |
| Earnings per share (PLN/EUR) | 3.64 | 3.87 | 0.83 | 0.93 |
| Diluted earnings per share (PLN / EUR) | 3.64 | 3.87 | 0.83 | 0.93 |
| Declared or paid dividends per share (PLN/EUR)** | 4.68 | 7.43 | 1.09 | 1.75 |

*Comparative balance data according as at 31 December 2015.

**The presented ratios are related to dividend paid in 2016 from the distribution of 2015 profit and dividend paid in 2015 from the distribution of 2014 profit.

***The following exchange rates were applied to convert PLN to EUR: for the statement of financial position - NBP average exchange rate as at 30 September 2016 – 4.3120 (as at 31 December 2015: PLN 4.2615; as at 30 September 2015 – PLN 4. 2386); for the income statement, a statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in the first, second and third quarter of 2016 - PLN 4.3688 (in the first, second and third quarter of 2015: PLN 4.1585).

Contents

| | |
|---|-----------|
| Condensed consolidated income statement | 4 |
| Condensed consolidated statement of comprehensive income | 5 |
| Condensed consolidated statement of financial position | 6 |
| Condensed consolidated statement of changes in equity | 7 |
| Condensed consolidated statement of cash flows | 8 |
| Supplementary notes to the interim condensed consolidated financial statements | 8 |
| 1 General information about the Bank and the Capital Group | 8 |
| 2 Declaration of conformity | 8 |
| 3 Principles accepted at the composition of the consolidated financial statements | 9 |
| 4 Macroeconomic conditions and the situation in money, foreign exchange and capital markets | 10 |
| 5 Banking sector | 11 |
| 6 Financial analysis of the results of the Capital Group of the Bank | 12 |
| 7 Segment reporting | 17 |
| 8 Activities of the Group | 18 |
| 9 Rating | 27 |
| 10 Financial instruments disclosure | 28 |
| 11 Impairment and provisions | 30 |
| 12 Provision and asset due to differed income tax | 32 |
| 13 Purchase and sale transactions of tangible assets | 32 |
| 14 Default or breach due to received credit agreement in respect of which there were no corrective action until the end of the reporting period | 32 |
| 15 Seasonality or periodicity of business activity | 32 |
| 16 Issue, redemption and repayment of debt and equity securities | 32 |
| 17 Paid or declared dividends | 32 |
| 18 Major events after the balance sheet date not included in the financial statements | 32 |
| 19 Changes in granted financial and guarantee commitments | 33 |
| 20 Changes in Group's structure | 33 |
| 21 Achievement of 2016 forecast results | 33 |
| 22 Information about shareholders | 33 |
| 23 Ownership of issuer's shares by members of the Management Board and Supervisory Board | 34 |
| 24 Information on pending court proceedings | 34 |
| 25 Information about significant transactions with related entities dealt on other than market terms. | 34 |
| 26 Information about guarantee agreements | 35 |
| 27 Other significant information | 35 |
| 28 Factors and events which could affect future financial performance of the Bank's Capital Group | 35 |
| Interim condensed standalone financial statements of the Bank for the third quarter 2016 | 36 |

Condensed consolidated income statement

| | Third quarter | Third quarter | Third quarter | Third quarter |
|--|--|--|--|--|
| | period from 01.07.16 to 30.09.16 | accruals period from 01.01.15 to 30.09.16 | period from 01.07.15 to 30.09.15 | accruals period from 01.01.15 to 30.09.15 |
| <i>PLN '000</i> | | | | |
| Interest and similar income | 301,727 | 925,368 | 293,249 | 892,917 |
| Interest expense and similar charges | (54,407) | (178,327) | (56,561) | (159,443) |
| Net interest income | 247,320 | 747,041 | 236,688 | 733,474 |
| Fee and commission income | 165,524 | 486,710 | 185,601 | 534,377 |
| Fee and commission expense | (21,021) | (60,454) | (16,861) | (55,605) |
| Net fee and commission income | 144,503 | 426,256 | 168,740 | 478,772 |
| Dividend income | 504 | 7,838 | 164 | 7,341 |
| Net income on trading financial instruments and revaluation | 93,127 | 238,363 | 56,085 | 213,711 |
| Net gain on debt investment securities available-for-sale | 21,676 | 42,601 | - | 118,800 |
| Net gain on equity investment instruments available-for-sale | 1,534 | 95,441 | 2,232 | 2,232 |
| Net gain/(loss) on hedge accounting | 463 | 8,024 | 4,288 | 5,198 |
| Other operating income | 9,217 | 35,379 | 8,371 | 29,587 |
| Other operating expenses | (6,721) | (20,564) | (17,146) | (40,929) |
| Net other operating income | 2,496 | 14,815 | (8,775) | (11,342) |
| General administrative expenses | (270,659) | (849,053) | (281,509) | (870,771) |
| Depreciation and amortization | (17,197) | (53,091) | (17,729) | (52,842) |
| Profit on sale of other assets | 8 | 95 | 6 | 78 |
| Net impairment due to financial assets and provisions for granted financial liabilities and guarantees | (18,083) | (32,575) | 22,332 | 16,848 |
| Operating income | 205,692 | 645,755 | 182,522 | 641,499 |
| Share in net profits of entities valued at equity method | 7 | 85 | 49 | 97 |
| Tax on certain financial institutions | (18,831) | (50,343) | - | - |
| Profit before tax | 186,868 | 595,497 | 182,571 | 641,596 |
| Income tax expense | (41,951) | (124,231) | (41,674) | (133,482) |
| Net profit | 144,917 | 471,266 | 140,897 | 508,114 |
| Including: | | | | |
| Net profit attributable to Bank's shareholders | | 471,266 | | 508,114 |
| Weighted average number of ordinary shares (in pcs) | | 130,659,600 | | 130,659,600 |
| Earnings per share (in PLN) | | 3.61 | | 3.89 |
| Diluted net earnings per share (in PLN) | | 3.61 | | 3.89 |

Condensed consolidated statement of comprehensive income

| | Third quarter | Third quarter | Third quarter | Third quarter |
|---|--|--|--|--|
| | period from 01.07.16 to 30.09.16 | accruals period from 01.01.16 to 30.09.16 | period from 01.07.15 to 30.09.15 | accruals period from 01.01.15 to 30.09.15 |
| <i>PLN '000</i> | | | | |
| Net profit | 144,917 | 471,266 | 140,897 | 508,114 |
| Other comprehensive income, that might be subsequently reclassified to profit or loss: | | | | |
| Net value of available-for-sale financial assets | 5,618 | (1,827) | (18,316) | (240,771) |
| Currency translation differences | (145) | 612 | (82) | (170) |
| Other comprehensive income net of tax | 5,473 | (1,215) | (18,398) | (240,941) |
| Total comprehensive income | 150,390 | 470,051 | 122,499 | 267,173 |
| Including: | | | | |
| Comprehensive income attributable to Bank's shareholders | 150,390 | 470,051 | 122,499 | 267,173 |

Condensed consolidated statement of financial position

| | State as at | 30.09.2016 | 31.12.2015 |
|--|-------------|-------------------|-------------------|
| <i>PLN '000</i> | | | |
| ASSETS | | | |
| Cash and balances with the Central Bank | | 901,395 | 2,170,237 |
| Amounts due from banks | | 638,091 | 757,103 |
| Financial assets held-for-trading | | 2,729,428 | 6,987,284 |
| Hedging derivatives | | 908 | 1,795 |
| Debt securities available-for-sale | | 16,694,875 | 18,351,259 |
| Equity investments valued at equity method | | 10,506 | 7,768 |
| Equity investments available for sale | | 22,197 | 67,744 |
| Amounts due from customers | | 18,561,265 | 18,975,471 |
| Tangible fixed assets | | 342,557 | 354,080 |
| Intangible assets | | 1,357,942 | 1,371,879 |
| Current income tax receivables | | 25,455 | 20,673 |
| Deferred income tax asset | | 164,358 | 161,586 |
| Other assets | | 525,431 | 277,985 |
| Non-current assets held-for-sale | | 1,928 | 1,928 |
| Total assets | | 41,976,336 | 49,506,792 |
| LIABILITIES | | | |
| Amounts due to banks | | 2,371,866 | 6,963,561 |
| Financial liabilities held-for-trading | | 1,213,540 | 3,247,523 |
| Hedging derivatives | | 75,957 | 112,383 |
| Amounts due to customers | | 30,520,264 | 31,586,303 |
| Provisions | | 14,449 | 23,494 |
| Other liabilities | | 1,071,140 | 722,872 |
| Total liabilities | | 35,267,216 | 42,656,136 |
| EQUITY | | | |
| Ordinary shares | | 522,638 | 522,638 |
| Share premium | | 3,003,082 | 3,001,525 |
| Revaluation reserve | | (165,440) | (163,613) |
| Other reserves | | 2,884,625 | 2,869,509 |
| Retained earnings | | 464,215 | 620,597 |
| Total equity | | 6,709,120 | 6,850,656 |
| Total liabilities and equity | | 41,976,336 | 49,506,792 |

Condensed consolidated statement of changes in equity

| <i>PLN '000</i> | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Non-controlling interest | Total equity |
|--|-----------------|------------------|---------------------|------------------|-------------------|--------------------------|------------------|
| Balance as at 1 January 2016 | 522,638 | 3,001,525 | (163,613) | 2,869,509 | 620,597 | - | 6,850,656 |
| Total comprehensive income, including: | - | - | (1,827) | 612 | 471,266 | - | 470,051 |
| Net profit | - | - | - | - | 471,266 | - | 471,266 |
| Currency translation differences from the foreign operations' conversion | - | - | - | 612 | - | - | 612 |
| Net valuation of available-for-sale financial assets | - | - | (1,827) | - | - | - | (1,827) |
| Dividends paid | - | - | - | - | (611,587) | - | (611,587) |
| Transfer to capital | - | 1,557 | - | 14,504 | (16,061) | - | - |
| Balance as at 30 September 2016 | 522,638 | 3,003,082 | (165,440) | 2,884,625 | 464,215 | - | 6,709,120 |

| <i>PLN '000</i> | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Non-controlling interest | Total equity |
|--|-----------------|------------------|---------------------|------------------|-------------------|--------------------------|------------------|
| Balance as at 1 January 2015 | 522,638 | 3,000,298 | 52,873 | 2,893,523 | 941,428 | - | 7,410,760 |
| Total comprehensive income, including: | - | - | (240,771) | (170) | 508,114 | - | 267,173 |
| Net profit | - | - | - | - | 508,114 | - | 508,114 |
| Currency translation differences from the foreign operations' conversion | - | - | - | (170) | - | - | (170) |
| Net valuation of available-for-sale financial assets | - | - | (240,771) | - | - | - | (240,771) |
| Dividends paid | - | - | - | - | (970,917) | - | (970,917) |
| Transfer to capital | - | 1,227 | - | (24,894) | 23,667 | - | - |
| Balance as at 30 September 2015 | 522,638 | 3,001,525 | (187,898) | 2,868,459 | 502,292 | - | 6,707,016 |

| <i>PLN '000</i> | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Non-controlling interest | Total equity |
|--|-----------------|------------------|---------------------|------------------|-------------------|--------------------------|------------------|
| Balance as at 1 January 2015 | 522,638 | 3,000,298 | 52,873 | 2,893,523 | 941,428 | - | 7,410,760 |
| Total comprehensive income, including: | - | - | (216,486) | 880 | 626,419 | - | 410,813 |
| Net profit | - | - | - | - | 626,419 | - | 626,419 |
| Currency translation differences from the foreign operations' conversion | - | - | - | (6) | - | - | (6) |
| Net valuation of available-for-sale financial assets | - | - | (216,486) | - | - | - | (216,486) |
| Net actuarial profits on specific services program valuation | - | - | - | 886 | - | - | 886 |
| Dividends paid | - | - | - | - | (970,917) | - | (970,917) |
| Transfer to capital | - | 1,227 | - | (24,894) | 23,667 | - | - |
| Balance as at 31 December 2015 | 522,638 | 3,001,525 | (163,613) | 2,869,509 | 620,597 | - | 6,850,656 |

Condensed consolidated statement of cash flows

| | Third quarter accruals | Third quarter accruals |
|--|--|--|
| | period from 01.01.16 to 30.09.16 | period from 01.01.15 to 30.09.15 |
| <i>PLN '000</i> | | |
| Cash at the beginning of the reporting period | 2,354,352 | 1,732,915 |
| Cash flows from operating activities | (550,766) | 754,912 |
| Cash flows from investing activities | (30,555) | (33,406) |
| Cash flows from financing activities | (687,628) | (1,098,986) |
| Cash at the end of the reporting period | 1,085,403 | 1,355,435 |
| Increase/(decrease) in net cash | (1,268,949) | (377,480) |

Supplementary notes to the interim condensed consolidated financial statements

1 General information about the Bank and the Capital Group

Bank Handlowy w Warszawie S.A. ("parent company", "the Bank", "Citi Handlowy") Head Office is located in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was established on the strength of Notarial Deed of 13 April 1870 and was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register.

The Bank was registered under entry No. KRS 0000001538 and was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

The Bank and its subsidiaries are expected to continue the business activity for an unspecified period of time.

Share equity of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with nominal value of PLN 4.00 per share. The Bank is a listed company on the Warsaw Stock Exchange.

The Group is a member of Citigroup Inc. The Bank is a subsidiary of Citibank Overseas Investments Corporation with headquarters in New Castle, USA. CitiBank Overseas Investment Corporation is a subsidiary of Citibank N.A, with headquarters in New York, USA. which is the ultimate parent company of the Bank.

The Bank is a universal bank that offers a wide range of banking services for individuals and corporate customers on the domestic and foreign markets. Additionally, the Group conducts the following activities through its subsidiaries:

- brokerage operations,
- lease services,
- investment operations.

This interim condensed consolidated financial statements present financial data of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), that is composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent company and its subsidiaries entities.

The Group consists of the following subordinated entities:

| Subsidiaries | Registered office | % of votes at the General Meeting of Shareholders | |
|--|-------------------|--|------------|
| | | 30.09.2016 | 31.12.2015 |
| Entities fully consolidated | | | |
| Dom Maklerski Banku Handlowego S.A. („DMBH”) | Warsaw | 100.00 | 100.00 |
| Handlowy-Leasing Sp. z o.o. | Warsaw | 100.00 | 100.00 |
| Handlowy Investments S.A. | Luxembourg | 100.00 | 100.00 |
| PPH Spomasz Sp. z o.o. w likwidacji | Warsaw | 100.00 | 100.00 |
| Entities valued at equity method | | | |
| Handlowy-Inwestycje Sp. z o.o. | Warsaw | 100.00 | 100.00 |

In the third quarter of 2016 there were no changes in the structure of Group's entities.

2 Declaration of conformity

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting* adopted by European Union and with other applicable regulations.

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the financial year ended 31 December 2015.

In accordance with the Decree of the Ministry of Finance dated 19 February 2009 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2014, No. 133, as amended) the Bank is obliged to publish its financial results for the 9 month period ended 30 September 2016 which is deemed to be the current interim financial reporting period.

3 Principles accepted at the composition of the consolidated financial statements

The interim condensed consolidated financial statements of the Group for the third quarter 2016 have been prepared in accordance with accounting principles adopted and summarized in the annual consolidated financial statements of the Group for the financial year ended 31 December 2015.

The condensed interim consolidated financial statement of the Group have been prepared in accordance with the same accounting policies used in the annual consolidated financial statements for the financial year ended 31 December 2015, except for income tax expense that was calculated in accordance with International Accounting Standard IAS 34.30c, and new standards, taking into account the situation described below.

Standards listed below were applied for the first time in 2016 and its implementation has no material impact on the financial statements:

- amendments to IAS 1 – regards the materiality and decomposition of presentation of the financial statements,
- amendments to IFRS 11 – regards the requirement to apply the accounting rules for joint operations during acquisition of an interest in a joint operation,
- amendments to IAS 16 – excludes the possibility of depreciation of tangible assets based on revenues under this measure,
- IAS 19 – regards the change in determining the discount rate for valuation of employee benefits,
- amendments to IAS 38 – excludes the possibility of amortization and depreciation of intangible assets based on revenues under this measure,
- amendments to IAS 27- enables using the ownership rights method in an entity's separate financial statements,
- annual improvements to IFRS cycle 2010-2012 and 2012-2014 – regards changes in the number of standards that have no significant effect on the Group,
- amendments to IFRS 10, IFRS 12 and IAS 28 – regards the exemption from consolidation obligations.

For periods beginning from 1st January 2015 and 1st January 2016, the Group has complied with the interpretations and standards published. Only one of them has a significant impact on the Group, which is the interpretation IFRIC 21 "Levies".

In 2015 according to the opinion of the Ministry of Finance and the statement of Financial Supervision Authority mentioned above, in order to ensure compliance with the recommended approach and comparability of the financial statements across the banking sector in respect to accounting for Bank Guarantee Fund costs, Group decided to amortize those costs over 2015, the same way as in previous years.

In 2016, the amendment of the Act on Bank Guarantee Fund of 14 December 1994 changed the way and dates of calculating payments for Bank Guarantee Fund from annual to quarterly. Tax expenses in both periods are comparable.

The preparation of interim condensed consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires from the Management to prepare certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. This financial statement is based on the same estimation rules, which were used in the annual consolidated financial statements of the Group for the financial year ended 31 December 2015, including the reasons and sources of uncertainty as at the balance sheet date.

The most significant estimates made for the 9 month period ended 30 September 2016, concern:

- value loss of financial assets,
- valuation to the fair value of derivatives,
- employee benefits.

The interim condensed consolidated financial statements of the Group have been prepared for the period from 1 January 2016 to 30 September 2016 and for the consolidated statement of financial position as at 30 September 2016. Comparative financial data are presented for the period from 1 January 2015 to 30 September 2015 and for the consolidated statement of financial position as at 31 December 2015.

The financial statements are presented in PLN (currency of presentation), rounded to the nearest thousand.

4 Macroeconomic conditions and the situation in money, foreign exchange and capital markets

1. Macroeconomic conditions and the situation in money and foreign exchange markets

Economic growth in the third quarter 2016 was most likely similar to the 3% yoy recorded in the first half of the year.

Construction output further declined in the third quarter 2016 from -18.2% to -13.9% in the second quarter 2016, largely reflecting the weakness of investment demand and heralding the potential further decrease in fixed capital formation in third quarter this year. This is mostly likely due to the slower inflow of EU funds in 2016 vs. 2015.

The seasonally adjusted industrial cycle index (PMI) slightly declined in the third quarter 2016 to 51.4 points from 51.6 points in the second quarter 2016. Industrial production growth fell to 2.4% yoy in the third quarter 2016 from 5.2% YoY in the second quarter 2016. However, individual consumption remains the main economic growth driver, as evidenced by the accelerated growth of retail sale – by 6.2% yoy in the third quarter 2016 vs. 5.4% in the previous quarter. Growing consumer spending results from the consistent improvement of the labor market situation and higher disposable income of households due to payments under the 500+ program. The registered unemployment rate recorded an all-time low at 8.5% at the end of August 2016.

Prices of consumer goods and services declined by 0.7% in the third quarter 2016, vs. a 0.9% decline in the first half of 2016. Deflation persisted due to low fuel and energy prices, but also because of the low net inflation, partially resulting from low administered price dynamics.

Despite the persistent deflation, the Monetary Policy Council (MPC) left the National Bank of Poland benchmark rate unchanged at 1.50%. Furthermore, the Monetary Policy Council indicated in its recent communications that due to good economic performance and the expected increase in inflation, they did not find it necessary to adjust their monetary policy.

Following the marked depreciation of the zloty at the end of second quarter 2016 in response to the outcome of the Brexit referendum, the national currency gained in the third quarter 2016 against both the euro and the US dollar. The EUR/PLN exchange rate dropped to 4.29 from 4.38. The USD/PLN exchange rate, in turn, fell to 3.82 from 3.94 at the end of June 2016.

Debt market volatility in the third quarter 2016 was relatively limited, with yields fluctuating in a narrow range. This was driven by the stability of yields on foreign markets. The increased inflation rate at the end of third quarter and lower expectations for interest rate cuts in Poland pushed towards higher yields, especially in respect of bonds with shorter maturities. Yields of 2-year Treasury bonds increased in the third quarter 2016 to 1.77% vs. 1.66% at the end of June 2016. Meanwhile, 10-year bond yields were close to the level seen at the end of second quarter at 2.92% vs. 2.91% at the end of June 2016. 3M WIBOR stood at 1.71% at the end of September 2016 and had not changed since June 2016.

2. Capital market situation

The third quarter 2016 brought a slight improvement in sentiment on the domestic capital market, largely driven by local factors. The concept for changes in the pension regime proved less painful for the domestic stock market, with a considerable effect on sentiment, especially for mid-cap and small-cap stocks. Furthermore, the presented bill on FX loans turned out to be less restrictive than expected, which was reflected by gaining bank stocks.

Over the last three months, the main stock market index WIG has increased by 5.2% qoq. WIG20 underperformed against the whole of the market, losing 2.4% of its value. mWIG40, the mid-cap stock index, recorded a record-high level since the end of 2007, having grown by 18.8% in the third quarter. Also, small-cap stocks recorded very strong increases, with sWIG80 improving by 9.1% qoq.

As regards sector indices, WIG-Surowce stands out with its 34.2% appreciation qoq fueled by growing coal prices. Two-digit positive rates of return were also recorded for IT companies (+18.5%), telecoms (+17.3%) and the construction sector (+15.6%). On the other hand, WIG-Energetyka lost 10.7% following the announcement of plans to change the nominal value of Treasury-controlled companies.

Between July and September 2016, IPO market activity was only nominal. Four companies were floated on the main floor, all transferred from the New Connect market. At the same time, three companies were delisted from the Warsaw Stock Exchange.

At the end of September, 484 companies were traded on the main floor of the WSE (vs. 476 at the end of the corresponding period in 2015) with the aggregate market capitalization of more than PLN 948 billion (vs. PLN 1.12 trillion the year before and PLN 1.08 trillion at the end of 2015).

Equity market indices as of 30 September 2016

| Index | 30 September 2016 | 30 June 2016 | Change (%) QoQ | 30 September 2015 | Change (%) YoY |
|---------|----------------------|-----------------|-------------------|----------------------|-------------------|
| WIG | 47,084.94 | 44,748.53 | 5.2% | 49,824.59 | (5.5%) |
| WIG-PL | 47,828.95 | 45,543.29 | 5.0% | 50,998.52 | (6.2%) |
| WIG-div | 962.57 | 920.82 | 4.5% | 1,053.47 | (8.6%) |

| Index | 30 September 2016 | 30 June 2016 | Change (%) QoQ | 30 September 2015 | Change (%) YoY |
|---------------------------|----------------------|-----------------|-------------------|----------------------|-------------------|
| WIG20 | 1,709.51 | 1,750.69 | (2.4%) | 2,066.37 | (17.3%) |
| WIG20TR | 2,892.87 | 2,911.51 | (0.6%) | 3,394.72 | (14.8%) |
| WIG30 | 1,976.55 | 1,955.69 | 1.1% | 2,285.76 | (13.5%) |
| mWIG40 | 4,030.06 | 3,393.01 | 18.8% | 3,576.75 | 12.7% |
| sWIG80 | 14,382.68 | 13,177.86 | 9.1% | 13,104.96 | 9.7% |
| Sector sub-indices | | | | | |
| WIG-Banks | 5,992.85 | 5,687.18 | 5.4% | 6,581.02 | (8.9%) |
| WIG-Construction | 2,945.73 | 2,548.61 | 15.6% | 2,916.59 | 1.0% |
| WIG-Chemicals | 13,354.08 | 12,311.84 | 8.5% | 14,820.99 | (9.9%) |
| WIG-Developers | 1,726.57 | 1,603.35 | 7.7% | 1,379.70 | 25.1% |
| WIG-Energy | 2,396.24 | 2,682.73 | (10.7%) | 3,299.66 | (27.4%) |
| WIG-IT | 2,032.44 | 1,714.45 | 18.5% | 1,618.65 | 25.6% |
| WIG-Media | 4,536.28 | 4,156.73 | 9.1% | 4,292.52 | 5.7% |
| WIG-Oil & Gas | 4,500.15 | 4,696.12 | (4.2%) | 4,703.67 | (4.3%) |
| WIG-Food | 3,851.51 | 3,614.07 | 6.6% | 3,394.75 | 13.5% |
| WIG-Basic materials | 2,816.67 | 2,099.64 | 34.2% | 2,599.96 | 8.3% |
| WIG-Telecom | 793.04 | 676.23 | 17.3% | 883.13 | (10.2%) |

Source: WSE, DMBH;

Equity and bond trading value and derivatives trading volumes on WSE in the third quarter of 2016

| | Q3 2016 | Q2 2016 | Change (%) QoQ | Q3 2015 | Change (%) YoY |
|---------------------------------|---------|---------|-------------------|---------|-------------------|
| Shares (PLN million)* | 108,769 | 87,772 | 23.9% | 117,105 | (7.1%) |
| Bonds (PLN million) | 756 | 691 | 9.4% | 452 | 67.3% |
| Futures (in thousand contracts) | 3,553 | 3,798 | (6.5%) | 3,954 | (10.1%) |
| Options (in thousand contracts) | 180 | 171 | 5.3% | 227 | (20.7%) |

*excluding calls

Source: WSE, DMBH

In the third quarter 2016, domestic stock market turnover (both EOB and negotiated deals trades) increased by 24% qoq, reaching PLN 108.8 billion. However, compared to the corresponding period in the previous year, activity measured by turnover value shrank by 7.1%.

The debt instruments segment achieved a turnover of PLN 756 million, resulting in a quarterly and annual growth rate of 9.4% and 67.3%, respectively.

The futures market recorded 3.55 million contracts, representing a decline by 6.5% qoq and 10.1% yoy.

The options market turnover slightly improved vs. the second quarter 2016 (+5.3%), reaching a volume of 180 thousand. Activity in that segment decreased by 21% compared to last year.

5 Banking sector

According to the National Bank of Poland, at the end of the third quarter of 2016, the volume of loans granted to businesses reached almost PLN 310 billion (a change by +5.2% yoy). The volume increase applied to most of the corporate loan portfolio, with the greatest momentum observed for loans granted for a period of more than five years (+8.9% yoy). Loans with a medium-term maturity (from 1 to 5 years) increased by +6.1% yoy, while loans with maturities of up to one year recorded a decline in volume by -1.2% yoy.

In terms of generic structure, the highest increase in lending was reported for investment loans (+12.1% yoy). The value of real estate loans and authorized overdrafts, on the other hand, increased at much lower rates (+3.0% and +1.1% yoy, respectively).

The quality of the corporate loan portfolio in the third quarter of 2016 measured by the rate of non-performing loans (NPL) improved by -1.3 p.p. to 9.4% owing to the improved SMEs lending quality (the ratio decreased by -1.5 p.p. yoy to 11.1%). The NPL ratio for large corporates also decreased, by -1.0 p.p. yoy, to 7.2%. The improvement in the quality of the corporate portfolio can be explained by both the stable economic situation translating into an improved viability of enterprises and the low level of interest rates.

The balance of loans to households at the end of September 2016 exceeded the level of PLN 640 billion (+4.8% yoy), primarily due to the intensive growth of consumer lending volumes (+7.7% yoy). Consumer loans are in the focus of the banking industry due to high yields in the all-time low interest rate environment. With respect to loans for real estate purchases, a +4.0% yoy growth rate was observed, which is due to the decline in the volume of loans denominated in foreign currencies (-4.2% yoy to PLN 160 bn) caused, *inter alia*, by the appreciation of the zloty over the last 12 months. Loans denominated in zlotys, on the other hand, generated a significant increase by +10.3% yoy to PLN 237 bn.

The quality of the portfolio of loans to households improved slightly. The NPL ratio for this segment decreased at the end of September by about -0.2 p.p. yoy to the level of 6.2%, mostly due to the improved quality of mortgage lending (-0.3 p.p. yoy to 2.9%), while for other loans it stood at 12.3%. The improvement is due both to the low level of interest rates which helps borrowers to pay off their liabilities, and to the disposal of part of the portfolio of non-performing loans by the banks. Growing volumes translating into improved quality of loans measured by the NPL ratio are also of importance.

Corporate deposits rose by +5.4% p.a. and their balance at the end of September 2016 exceeded PLN 246 billion. Due to low interest rates, the deposit base increased only in the area of current deposits which grew by +9.7% yoy, while the volume of term deposits declined by -0.3% yoy.

As regards household deposits, the balance increased by +10.2% yoy to almost PLN 688 bn. The growth was mostly fueled by current deposits, like in the case of corporate deposits. Their volume grew by +16.5% yoy at the end of September 2016. In contrast to the corporate segment, the balance of term deposits did not decrease, generating a +3.5% increase yoy. This elevated the ratio of current deposits to total deposits to 54.7% (+3.0 p.p. yoy).

The net result of the banking sector after the third quarter of 2016 slightly increased compared to the same period of 2015 (+0.3% yoy), reaching PLN 11.4 billion. Improved performance vs. last year was recorded for net interest income (+8.7% yoy), while the fee and commission income declined by -5.6% yoy. The income of the banking sector for the last three quarters totaled PLN 46.9 billion, +10.8% more than in the previous year. One of the main sources of additional income was the sale of Visa Europe to Visa Inc., which improved bank income by more than PLN 2 billion. Negative factors that affected the banking sector performance included the increased total cost (+12.9% yoy) driven by the new banking tax. By the end of September, financial institutions covered by that tax paid more than PLN 2.4 billion to the state budget on that account. Costs of asset impairment losses increased as well by +14.7% yoy to PLN 6.3 billion.

6 Financial analysis of the results of the Capital Group of the Bank

1. Consolidated statement of financial position

As of the end of the third quarter of 2016 total assets stood at PLN 42 billion, down by PLN 7.5 billion (or 15.2%) compared to the end of 2015. The change in total assets was predominantly due to the following events:

- decrease in financial assets held for trading by PLN 4.3 billion (or 60.9%);
- decrease in in the balance of debt securities available-for-sale by PLN 1.7 billion (or 9.0%).

The largest share in the structure of the Group's assets as at the end of third quarter 2016 was held by net amounts due from customers. Their share in total assets amounted to 44.2% as of the end of September 2016. Total net receivables due from customers as of the end of third quarter 2016 amounted to PLN 18.6 billion, down by PLN 0.4 billion (or 2.2%) compared to the end of 2015. Excluding receivables related to reverse repo transactions, total net amounts due from customers increased by PLN 0.9% billion (or 5.3%).

Net amounts due from customers

| PLN '000 | 30.09.2016 | 31.12.2015 | Change | |
|---|-------------------|-------------------|------------------|----------------|
| | | | PLN '000 | % |
| Amounts due from financial sector entities, including: | 1,748,576 | 2,033,715 | (285,139) | (14.0%) |
| Receivables related to reverse repo transactions | - | 1,356,247 | (1,356,247) | (100.0%) |
| Amounts due from non-financial sector entities, including: | 16,812,689 | 16,941,756 | (129,067) | (0.8%) |
| Institutional clients* | 10,460,546 | 10,769,227 | (308,681) | (2.9%) |
| Individual clients, including: | 6,352,143 | 6,172,529 | 179,614 | 2.9% |
| unsecured receivables | 5,043,357 | 4,872,448 | 170,909 | 3.5% |
| mortgage loans | 1,308,786 | 1,300,081 | 8,705 | 0.7% |
| Total net receivables from customers | 18,561,265 | 18,975,471 | (414,206) | (2.2%) |

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

Amounts due from customers divided into without recognized impairment/with recognized impairment

| PLN '000 | 30.09.2016 | 31.12.2015 | Change | |
|---|------------|------------|-----------|---------|
| | | | PLN '000 | % |
| Without recognized impairment, including: | 18,467,242 | 18,861,253 | (394,011) | (2.1%) |
| non-financial sector entities | 16,717,879 | 16,827,402 | (109,523) | (0.7%) |
| institutional clients* | 10,419,676 | 10,729,522 | (309,846) | (2.9%) |
| individual clients | 6,298,203 | 6,097,880 | 200,323 | 3.3% |
| With recognized impairment, including: | 599,340 | 625,591 | (26,251) | (4.2%) |
| non-financial sector entities | 582,204 | 608,457 | (26,253) | (4.3%) |
| institutional clients* | 233,783 | 269,892 | (36,109) | (13.4%) |

Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.
for the third quarter 2016

TRANSLATION

| PLN '000 | 30.09.2016 | 31.12.2015 | Change | |
|---|-------------------|-------------------|------------------|---------------|
| | | | PLN '000 | % |
| individual clients | 348,421 | 338,565 | 9,856 | 2.9% |
| Dues related to matured derivative transactions | 75,748 | 74,033 | 1,715 | 2.3% |
| Total gross receivables from customers, including: | 19,142,330 | 19,560,877 | (418,547) | (2.1%) |
| non-financial sector entities | 17,300,083 | 17,435,859 | (135,776) | (0.8%) |
| institutional clients* | 10,653,459 | 10,999,414 | (345,955) | (3.1%) |
| individual clients | 6,646,624 | 6,436,445 | 210,179 | 3.3% |
| Impairment, including: | (581,065) | (585,406) | 4,341 | (0.7%) |
| dues related to matured derivative transactions | (66,875) | (67,678) | 803 | (1.2%) |
| Total net receivables from customers | 18,561,265 | 18,975,471 | (414,206) | (2.2%) |
| Impairment coverage ratio with recognized impairment** | 85.8% | 82.8% | | |
| institutional clients* | 86.3% | 87.6% | | |
| individual clients | 84.5% | 78.0% | | |
| Non-performing loans ratio (NPL) | 3.1% | 3.2% | | |

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

**Ratio calculated with IBNR impairment

In the third quarter of 2016 amounts due to customers were the dominant source of financing of the activities of the Group and constituted 72.7% of the Group's liabilities and own funds. Total amounts due to customers as of the end of September 2016 amounted to PLN 30.5 billion, down by PLN 1.1 billion (or 3.4%) compared to the end of 2015, which was mainly due to the high level of current account balances of institutional clients, including public sector entities, as of the end of 2015.

Amounts due to banks were PLN 2.4 billion as of the end of third quarter of 2016, which represented 5.7% of the Group's liabilities and own funds. As compared to the end of 2015 amounts due to banks dropped by PLN 4.6 billion (or 65.9%), inter alia due to a lower level of liabilities under repo contracts.

Amounts due to customers

| PLN '000 | 30.09.2016 | 31.12.2015 | Change | |
|---|-------------------|-------------------|--------------------|----------------|
| | | | PLN '000 | % |
| Current accounts, including: | 19,177,431 | 20,421,149 | (1,243,718) | (6.1%) |
| financial sector entities | 589,029 | 226,438 | 362,591 | 160.1% |
| non-financial sector entities, including: | 18,588,402 | 20,194,711 | (1,606,309) | (8.0%) |
| institutional clients*, including: | 10,568,707 | 13,120,289 | (2,551,582) | (19.4%) |
| budgetary units | 1,373,677 | 2,665,606 | (1,291,929) | (48.5%) |
| individual clients | 8,019,695 | 7,074,422 | 945,273 | 13.4% |
| Term deposits, including: | 11,224,711 | 10,854,392 | 370,319 | 3.4% |
| financial sector entities | 4,232,367 | 3,154,694 | 1,077,673 | 34.2% |
| non-financial sector entities, including: | 6,992,344 | 7,699,698 | (707,354) | (9.2%) |
| institutional clients*, including: | 5,493,817 | 6,032,088 | (538,271) | (8.9%) |
| budgetary units | 812,328 | 59,384 | 752,944 | - |
| individual customers | 1,498,527 | 1,667,610 | (169,083) | (10.1%) |
| Total customers deposits | 30,402,142 | 31,275,541 | (873,399) | (2.8%) |
| Other amounts due to customers | 118,122 | 310,762 | (192,640) | (62.0%) |
| Total amounts due to customers | 30,520,264 | 31,586,303 | (1,066,039) | (3.4%) |

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

2. Consolidated income statement

In the third quarter of 2016 the Group delivered a consolidated net profit of PLN 144.9 million, up by PLN 4.0 million (or 2.9%) compared to the third quarter of 2015. At the same time the Group's revenue increased by PLN 52.2 million (or 11.4%) to PLN 511.6 million.

The main determinants of the Group's operating result in the third quarter of 2016 when compared to the third quarter of 2015 were the following:

- net interest income of PLN 247.3 million versus PLN 236.7 million in the third quarter of 2015 – up by PLN 10.6₁₃

million (or 4.5%), despite the ongoing low interest rate environment. Interest income in the third quarter of 2016 increased by PLN 8.5 million (or 2.9%) compared to the corresponding period of 2015 and amounted to PLN 301.7 million. Amounts due from customers, which reached the level of PLN 214.2, up by PLN 24.1 million (or 12.7%) compared to the third quarter of 2015 primarily due positive effect of credit margin, were the main source of interest income. On the other hand, interest income from debt securities available-for-sale dropped by PLN 6.8 million (or 8.3%) and from debt securities held-for-trading by PLN 4.7 million (or 57.1%), mainly due to the lower average securities volumes. At the same time interest expenses in the third quarter of 2016 dropped by PLN 2.2 million (or 3.8%) compared the corresponding period of 2015. The decline was primarily due to lower interest expenses on amounts due to banks by PLN 4.0 million (or 41.0%).

Net interest income

| PLN '000 | 01.07 - 30.09.2016 | 01.07 - 30.09.2015 | Change | |
|---|-----------------------|-----------------------|---------------|---------------|
| | | | PLN '000 | % |
| Interest and similar income from: | | | | |
| Balances with the Central Bank | 4,548 | 4,091 | 457 | 11.2% |
| Amounts due from banks | 5,045 | 9,705 | (4,660) | (48.0%) |
| Amounts due from customers, in respect of: | 214,240 | 190,122 | 24,118 | 12.7% |
| financial sector | 9,989 | 4,055 | 5,934 | 146.3% |
| non-financial sector, including: | 204,251 | 186,067 | 18,184 | 9.8% |
| credit cards | 69,901 | 62,727 | 7,174 | 11.4% |
| Debt securities available-for-sale | 74,378 | 81,129 | (6,751) | (8.3%) |
| Debt securities held-for-trading | 3,516 | 8,202 | (4,686) | (57.1%) |
| | 301,727 | 293,249 | 8,478 | 2.9% |
| Interest expense and similar charges on: | | | | |
| Amounts due to banks | (5,727) | (9,706) | 3,979 | (41.0%) |
| Amounts due to financial sector entities | (12,647) | (12,535) | (112) | 0.9% |
| Amounts due to non-financial sector entities | (29,442) | (25,747) | (3,695) | 14.4% |
| Loans and advances received | (234) | (378) | 144 | (38.1%) |
| Derivative instruments in hedge accounting | (6,357) | (8,195) | 1,838 | (22.4%) |
| | (54,407) | (56,561) | 2,154 | (3.8%) |
| Net interest income | 247,320 | 236,688 | 10,632 | 4.5% |

- net fee and commission income of PLN 144.5 million versus PLN 168.7 million in the third quarter of 2015 – down by PLN 24.2 million (or 14.4%) stemming primarily from a lower result on insurance and investment products distribution by PLN 8.7 million or (29.7%) due to reduced interest in investment products as a consequence of the weakening market sentiment and in connection with the new regulatory requirements for group insurance;

Net fee and commission income

| PLN '000 | 01.07– 30.09.2016 | 01.07- 30.09.2015 | Change | |
|--|----------------------|----------------------|-----------------|----------------|
| | | | PLN '000 | % |
| Fee and commission income | | | | |
| Insurance and investment products distribution | 20,488 | 29,149 | (8,661) | (29.7%) |
| Payment and credit cards | 40,288 | 47,768 | (7,480) | (15.7%) |
| Payment orders | 26,614 | 27,018 | (404) | (1.5%) |
| Custody services | 26,006 | 33,831 | (7,825) | (23.1%) |
| Cash loans fees | 216 | 963 | (747) | (77.6%) |
| Brokerage activity | 16,559 | 16,942 | (383) | (2.3%) |
| Clients' cash on account management services | 6,373 | 6,420 | (47) | (0.7%) |
| Guarantees granted | 4,508 | 4,293 | 215 | 5.0% |
| Financial liabilities granted | 1,583 | 1,227 | 356 | 29.0% |
| Other | 22,889 | 17,990 | 4,899 | 27.2% |
| | 165,524 | 185,601 | (20,077) | (10.8%) |
| Fee and commission expense | | | | |
| Payment and credit cards | (8,516) | (3,353) | (5,163) | 154.0% |
| Brokerage activity | (3,324) | (4,489) | 1,165 | (26.0%) |
| Fees paid to the National Depository for Securities (KDPW) | (4,499) | (4,961) | 462 | (9.3%) |

Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.
for the third quarter 2016

TRANSLATION

| PLN '000 | 01.07- 30.09.2016 | 01.07- 30.09.2015 | Change | |
|--|----------------------|----------------------|-----------------|----------------|
| | | | PLN '000 | % |
| Brokerage fees | (976) | (681) | (295) | 43.3% |
| Other | (3,706) | (3,377) | (329) | 9.7% |
| | (21,021) | (16,861) | (4,160) | 24.7% |
| Net fee and commission income | | | | |
| Insurance and investment products distribution | 20,488 | 29,149 | (8,661) | (29.7%) |
| Payment and credit cards | 31,772 | 44,415 | (12,643) | (28.5%) |
| Payment orders | 26,614 | 27,018 | (404) | (1.5%) |
| Custody services | 26,006 | 33,831 | (7,825) | (23.1%) |
| Cash loans fees | 216 | 963 | (747) | (77.6%) |
| Brokerage activity | 13,235 | 12,453 | 782 | 6.3% |
| Clients' cash on account management services | 6,373 | 6,420 | (47) | (0.7%) |
| Guarantees granted | 4,508 | 4,293 | 215 | 5.0% |
| Financial liabilities granted | 1,583 | 1,227 | 356 | 29.0% |
| Fees paid to the National Depository for Securities (KDPW) | (4,499) | (4,961) | 462 | (9.3%) |
| Brokerage fees | (976) | (681) | (295) | 43.3% |
| Other | 19,183 | 14,613 | 4,570 | 31.3% |
| Net fee and commission income | 144,503 | 168,740 | (24,237) | (14.4%) |

- net income on trading financial instruments and revaluation of PLN 93.1 million versus PLN 56.1 million in the third quarter of 2015, up by PLN 37.0 million and net income on debt investment securities in the amount of PLN 21.7 million compared to the unrealized income in the third quarter 2015;
- operating expenses and overheads including depreciation expenses of PLN 287.9 million compared to PLN 299.2 million in the corresponding period of the previous year – down by PLN 11.4 million (or 3.8%) due to lower administrative expenses by PLN 12.8 million (or 8.5%), mainly as a result of reviewing of charges for selected technology services rendered for the Bank, which led to a reduction in telecommunication fees and hardware purchase costs.

General administrative expenses and depreciation expense

| PLN '000 | 01.07 - 30.09.2016 | 01.07- 30.09.2015 | Change | |
|---|-----------------------|----------------------|----------------|---------------|
| | | | PLN '000 | % |
| Staff expenses | (134,132) | (132,223) | (1,909) | 1.4% |
| Remuneration costs | (93,961) | (97,126) | 3,165 | (3.3%) |
| Bonuses and rewards | (26,052) | (21,028) | (5,024) | 23.9% |
| Social security costs | (14,119) | (14,069) | (50) | 0.4% |
| Administrative expenses | (136,527) | (149,286) | 12,759 | (8.5%) |
| Telecommunication fees and hardware purchase costs | (47,831) | (57,239) | 9,408 | (16.4%) |
| Costs of external services, including advisory, audit, consulting services | (14,158) | (15,406) | 1,248 | (8.1%) |
| Building maintenance and rent costs | (18,602) | (18,357) | (245) | 1.3% |
| Marketing costs | (5,248) | (3,700) | (1,548) | 41.8% |
| Costs of cash management services, costs of cleaning services and other transaction costs | (9,804) | (10,757) | 953 | (8.9%) |
| Costs of external services related to distribution of banking products | (4,844) | (3,588) | (1,256) | 35.0% |
| Postal services, office supplies and printmaking costs | (2,078) | (1,819) | (259) | 14.2% |
| Training and education costs | (413) | (684) | 271 | (39.6%) |
| Banking and capital supervision costs | 1,806 | 1,325 | 481 | 36.3% |
| Bank Guarantee Funds costs | (17,415) | (16,837) | (578) | 3.4% |
| Other expenses | (17,940) | (22,224) | 4,284 | (19.3%) |
| Depreciation and amortization | (17,197) | (17,729) | 532 | (3.0%) |
| General administrative expenses and depreciation expense, total | (287,856) | (299,238) | 11,382 | (3.8%) |

- net impairment due to financial assets and provisions for granted financial liabilities and guarantees of PLN -18.1 million compared to the net release of PLN 22.3 million in the third quarter 2015. The Institutional Banking segment reported a slight increase in net impairment losses by PLN 1.4 million yoy, mainly due to an increase in off-balance sheet exposures, which led to higher IBNR provisions. The Consumer Banking segment reported net impairment write-offs of PLN -18.4 million in the third quarter 2016 compared to a reversal of PLN 20.5 million in the third quarter of 2015. Higher net impairment write-offs by PLN 39 million is a result of maturing of the impaired portfolio¹⁵

and the increase in the average age of this portfolio. At the same time in the third quarter 2016 some of retail exposures worth PLN 70.4 million were sold for PLN 14.6 million.

Net impairment due to financial assets and provisions for granted financial liabilities and guarantees

| PLN '000 | 01.07 – | 01.07 – | Change | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 30.09.2016 | 30.09.2015 | PLN '000 | % |
| Impairment allowances for financial assets | | | | |
| Amounts due from banks | (804) | (1,102) | 298 | (27.0%) |
| Amounts due from customers | (52,699) | (39,555) | (13,144) | 33.2% |
| Receivables from matured derivative transactions | (46) | (314) | 268 | (85.4%) |
| | (53,549) | (40,971) | (12,578) | 30.7% |
| Reversals of impairment allowances for financial assets | | | | |
| Amounts due from banks | 954 | 940 | 14 | 1.5% |
| Amounts due from customers | 34,375 | 59,764 | (25,389) | (42.5%) |
| Receivables from matured derivative transactions | 74 | 579 | (505) | (87.2%) |
| Recoveries from sold debts | 1,278 | (29) | 1,307 | - |
| Other | 1,683 | 2,104 | (421) | (20.0%) |
| | 38,364 | 63,358 | (24,994) | (39.4%) |
| Net impairment allowances financial assets | (15,185) | 22,387 | (37,572) | (167.8%) |
| Created provisions for granted financial and guarantee commitments | (6,195) | (4,711) | (1,484) | 31.5% |
| Releases of provisions for granted financial and guarantee commitments | 3,297 | 4,656 | (1,359) | (29.2%) |
| Net impairment allowances provisions for granted financial and guarantee commitments | (2,898) | (55) | (2,843) | - |
| Net impairment allowances financial assets and provisions for granted financial liabilities and guarantees | (18,083) | 22,332 | (40,415) | (181.0%) |

- pursuant to the Act on tax imposed on certain financial institutions, effective from February 1, 2016, bank assets are subject to tax of 0.0366% per month. The tax base is the entity's assets less PLN 4 billion, own funds and T-securities. In the third quarter of 2016, total charge to the income statement of the Capital Group of Bank Handlowy w Warszawie S.A. in this respect was PLN 18.8 million.

3. Financial Ratios

In the third quarter of 2016, the key efficiency ratios were as follows:

| Total financial ratios | Q3 2016 | Q3 2015 |
|--|---------|---------|
| ROE * | 9.4% | 11.3% |
| ROA** | 1.3% | 1.4% |
| Cost/Income | 56% | 65% |
| Loans to non-financial sector/Deposits from non-financial sector | 66% | 74% |
| Loans to non-financial sector/Total assets | 40% | 35% |
| Net interest income/Revenue | 48% | 52% |
| Net fee and commission income/Revenue | 28% | 37% |

*Sum of net profit for the last four quarters to the average equity for the last four quarters (excluding net profit for the current year).

** Sum of net profit for the last four quarters to the average assets for the last four quarters.

Group employment*

| In full time job equivalents (FTE) | 01.01 – | 01.01 – | Change | |
|---|------------|------------|--------|---------|
| | 30.09.2016 | 30.09.2015 | FTEs | % |
| Average employment in the third quarter | 3,739 | 4,157 | (418) | (10.1%) |
| Average employment in the period | 3,826 | 4,181 | (355) | (8.5%) |
| Employment at the end of quarter | 3,680 | 4,082 | (402) | (9.8%) |

*does not include employees on parental and unpaid leave

Total capital adequacy ratio*

| PLN '000 | 30.09.2016 | 31.12.2015 |
|--|------------------|------------------|
| I Tier I capital | 4,846,131 | 4,781,008 |
| II Total capital requirements, including: | 2,263,548 | 2,238,956 |
| credit risk capital requirements | 1,720,122 | 1,685,320 |
| counterparty risk capital requirements | 60,934 | 78,682 |
| Credit valuation adjustment capital requirements | 42,731 | 34,059 |
| capital requirements for excess of exposures' concentration limit and large exposures' limit | 16,927 | 16,418 |
| total market risk capital requirements | 116,113 | 86,544 |
| operational risk capital requirements | 306,721 | 337,933 |
| Tier I capital ratio | 17.1% | 17.1% |

*Capital Adequacy Ratio was calculated according to the rules stated in the Regulation no 575/2013 of the European Parliament and of the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) no 648/2012.

7 Segment reporting

Operating segment is a separable component of the Group engaged in business activity, generating income and incurring expenses (including those on intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board of dominant unit the chief operating decision maker of the Group, in order to allocate resources and assess its performance.

The Group is managed at the level of two operating segments – Institutional Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its results is based on Group's accounting policies, including intragroup transactions between segments.

The allocation of Group's assets, liabilities, income and expenses to operating segments was made on the basis of internal information prepared for management purposes. Transfer of funds between Group's segments is based on prices derived from market rates. The transfer prices are calculated using the same rules for both segments and any difference results solely from maturity and currency structure of assets and liabilities. The basis for assessment of the segment performance is gross profit or loss.

The Group conducts its operations solely on the territory of Poland.

Institutional Banking

Within the Institutional Banking segment, the Group offers products and provides services to commercial entities, municipalities and public sector. Apart from traditional banking services consisting in credit and deposit activities, the segment provides services in the area of cash management, trade finance, leasing, brokerage and custody services in respect of securities. It also offers treasury products on financial and commodity markets. In addition, the segment offers the investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings. The activities also comprise proprietary transactions on the equity, debt and derivative instruments' markets.

Consumer Banking

Within the Consumer Banking segment the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. Besides managing bank accounts and providing extensive credit and deposit products, the Group offers cash loans, mortgage loans and credit cards. It also provides asset management services and acts as an agent in investment and insurance products sale.

Consolidated income statement of the Group by business segment

| PLN '000 | For the period | | | 01.01. – 30.09.2016 | | | 01.01. – 30.09.2015 | | |
|---|-----------------------|------------------|----------|-----------------------|------------------|----------|-----------------------|------------------|-------|
| | Institutional Banking | Consumer Banking | Total | Institutional Banking | Consumer Banking | Total | Institutional Banking | Consumer Banking | Total |
| Net interest income | 325,257 | 421,784 | 747,041 | 314,839 | 418,635 | 733,474 | | | |
| Internal interest income, including: | (29,011) | 29,011 | - | (42,678) | 42,678 | - | | | |
| Internal income | - | 29,011 | 29,011 | - | 42,678 | 42,678 | | | |
| Internal expenses | (29,011) | - | (29,011) | (42,678) | - | (42,678) | | | |
| Net fee and commission income | 207,214 | 219,042 | 426,256 | 212,195 | 266,577 | 478,772 | | | |
| Dividend income | 1,325 | 6,513 | 7,838 | 1,626 | 5,715 | 7,341 | | | |
| Net income on financial instruments and revaluation | 214,717 | 23,646 | 238,363 | 189,716 | 23,995 | 213,711 | | | |

| For the period | 01.01. – 30.09.2016 | | | 01.01. – 30.09.2015 | | |
|--|-----------------------|------------------|----------------|-----------------------|------------------|----------------|
| | Institutional Banking | Consumer Banking | Total | Institutional Banking | Consumer Banking | Total |
| <i>PLN '000</i> | | | | | | |
| Net gain on debt investment securities available-for-sale | 42,601 | - | 42,601 | 118,800 | - | 118,800 |
| Net gain on equity investment instruments available-for-sale | 28,964 | 66,477 | 95,441 | 2,232 | - | 2,232 |
| Net gain/(loss) on hedge accounting | 8,024 | - | 8,024 | 5,198 | - | 5,198 |
| Net other operating income | 20,184 | (5,369) | 14,815 | 10,315 | (21,657) | (11,342) |
| General administrative expenses | (371,204) | (477,849) | (849,053) | (380,758) | (490,013) | (870,771) |
| Depreciation and amortization | (16,072) | (37,019) | (53,091) | (17,549) | (35,293) | (52,842) |
| Profit on sale of other assets | 95 | - | 95 | 23 | 55 | 78 |
| Net impairment due to financial assets and provisions for granted financial liabilities and guarantees | 17,477 | (50,052) | (32,575) | 802 | 16,046 | 16,848 |
| Operating income | 478,582 | 167,173 | 645,755 | 457,439 | 184,060 | 641,499 |
| Share in net profits of entities valued at equity method | 85 | - | 85 | 97 | - | 97 |
| Tax on certain financial institutions | (36,415) | (13,928) | (50,343) | - | - | - |
| Profit before tax | 442,252 | 153,245 | 595,497 | 457,536 | 184,060 | 641,596 |
| Income tax expense | | | (124,231) | | | (133,482) |
| Net profit | | | 471,266 | | | 508,114 |

| State as at | 30.09.2016 | | | 31.12.2015 | | |
|---|-----------------------|-------------------|-------------------|-----------------------|-------------------|-------------------|
| <i>PLN '000</i> | Institutional Banking | Consumer Banking | Total | Institutional Banking | Consumer Banking | Total |
| Total assets | 35,322,735 | 6,653,601 | 41,976,336 | 43,034,095 | 6,472,697 | 49,506,792 |
| Total liabilities and shareholders' equity, including: | 30,008,468 | 11,967,868 | 41,976,336 | 38,188,084 | 11,318,708 | 49,506,792 |
| Liabilities | 24,757,697 | 10,509,519 | 35,267,216 | 32,930,579 | 9,725,557 | 42,656,136 |

8 Activities of the Group

1. Institutional Banking

1.1. Summary of segment results

| <i>PLN '000</i> | Q3 2016 | Q3 2015 | Change | |
|--|----------------|----------------|---------------|--------------|
| | | | PLN '000 | % |
| Net interest income | 104,339 | 98,361 | 5,978 | 6.1% |
| Net fee and commission income | 74,192 | 74,639 | (447) | (0.6%) |
| Net income on dividends | 482 | 164 | 318 | 193.9% |
| Net income on trading financial instruments and revaluation | 86,012 | 47,387 | 38,625 | 81.5% |
| Net gain on debt investment securities available-for-sale | 21,676 | - | 21,676 | - |
| Net gain on equity investment instruments available-for-sale | 1,534 | 2,232 | (698) | (31.3%) |
| Net gain/(loss) on hedge accounting | 463 | 4,288 | (3,825) | (89.2%) |
| Net other operating income | 6,004 | 3,494 | 2,510 | 71.8% |
| Total income | 294,702 | 230,565 | 64,137 | 27.8% |
| General administrative expenses and depreciation | (125,074) | (127,823) | 2,749 | (2.2%) |
| Profit on sale of other assets | 8 | 17 | (9) | (52.9%) |
| Net impairment due to financial assets and provisions for granted financial liabilities and guarantees | 342 | 1,828 | (1,486) | (81.3%) |
| Share in net profits of entities valued at equity method | 7 | 49 | (42) | (85.7%) |
| Tax on certain financial institutions | (13,637) | - | (13,637) | - |
| Profit before tax | 156,348 | 104,636 | 51,712 | 49.4% |
| Cost/Income | 42% | 55% | | |

The key highlights that impacted the gross profit of the Institutional Banking segment for the third quarter of 2016¹⁸

compared to the corresponding period of the previous year were as follows:

- an increase in net interest income due to higher interest income from amounts due from customers owing to the positive effect of credit margin, partially offset by a decline in interest income from debt securities available-for-sale and debt securities held-for-trading due to their lower average volume. At the same time interest expense on amounts due to non-financial sector customers grew due to an increase in the volume of deposits for these customers;
- a slight decrease in net fee and commission income, mainly in custody services;
- an increase in net income from trade financial instruments and revaluation by PLN 38.6 million yoy, primarily due to an increase in client activities;
- an increase in net income on debt investment securities by PLN 21.7 yoy compared to the unrealized income in the third quarter of 2015;
- a decrease in general administrative expenses and depreciation as a result of lower costs of in telecommunication fees and hardware purchase costs;
- a slight increase in net impairment write-offs by PLN 1.4 million yoy (a reversal of PLN 0.4 million in the third quarter of 2016 versus a reversal of PLN 1.8 million in the third quarter 2015), mainly as a result of an increase in off-balance sheet exposures, which led to higher IBNR provisions.

1.2. Institutional Bank and the Capital Markets

Institutional Bank

As regards institutional banking, the Bank provides comprehensive financial services to the largest Polish companies and strategic enterprises with a strong growth potential as well as to the largest financial institutions and public sector entities.

At the end of third quarter 2016, the Bank had 6,400 institutional clients (including corporate, global and commercial banking clients), which means a decline by 6% vs. 6,800 at the end of third quarter 2015. As part of its corporate banking operations (small and medium enterprises, large enterprises and the public sector), as at the end of third quarter 2016, the Bank had 4 thousand clients (a 13% decrease from 4.6 thousand clients served at the end of third quarter 2015). The main reason for the decline is associated with new legal provisions on court deposits.

What institutional banking clients have in common is their demand for advanced financial products and consultancy in the field of financial services. In that area, the Bank provides coordination of its investment banking, treasury and cash management offering and prepares loan proposals involving diverse forms of financing. The innovative, competitive and innovative financing structures offered by the Bank rely on the combination of its expertise and experience as well as on collaboration within the global Citigroup structure.

The table below presents balances of assets and liabilities in individual segments according to the management reporting format.

Assets*

| | 30.09.2016 | 30.06.2016 | 30.09.2015 | Change | | Change | |
|------------------------------------|---------------|---------------|---------------|-------------|-----------|-------------|-----------|
| | | | | (1)/(2) | (1)/(3) | | |
| PLN million | (1) | (2) | (3) | PLN million | % | PLN million | % |
| Enterprises**, including: | 5,025 | 4,881 | 4,845 | 144 | 3% | 180 | 4% |
| SMEs | 1,936 | 1,851 | 1,881 | 85 | 5% | 55 | 3% |
| MMEs | 3,089 | 3,030 | 2,964 | 59 | 2% | 125 | 4% |
| Public Sector | 114 | 138 | 174 | (24) | (17%) | (60) | (34%) |
| Global Clients | 2,151 | 2,684 | 3,536 | (533) | (20%) | (1,385) | (39%) |
| Corporate Clients | 4,582 | 3,689 | 3,098 | 893 | 24% | 1,484 | 48% |
| Other*** | 16 | 48 | 18 | (32) | (67%) | (2) | (11%) |
| Total Institutional Banking | 11,888 | 11,440 | 11,671 | 448 | 4% | 217 | 2% |

Liabilities*

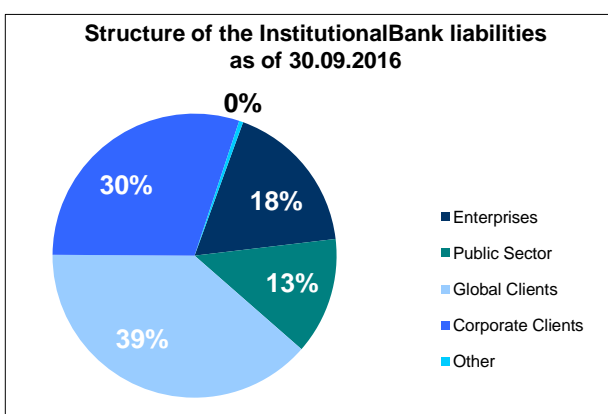
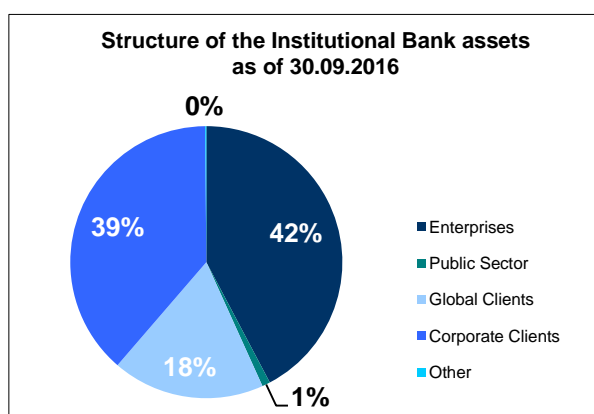
| | 30.09.2016 | 30.06.2016 | 30.09.2015 | Change | | Change | |
|---------------------------|------------|------------|------------|-------------|---------|-------------|------|
| | | | | (1)/(2) | (1)/(3) | | |
| PLN million | (1) | (2) | (3) | PLN million | % | PLN million | % |
| Enterprises**, including: | 3,526 | 3,708 | 3,346 | (182) | (5%) | 180 | 5% |
| SMEs | 2,291 | 2,329 | 2,326 | (38) | (2%) | (35) | (2%) |
| MMEs | 1,235 | 1,379 | 1,021 | (144) | (10%) | 214 | 21% |

| PLN million | 30.09.2016 | 30.06.2016 | 30.09.2015 | Change | | Change | |
|------------------------------------|---------------|---------------|---------------|----------------|-------------|--------------|------------|
| | (1) | (2) | (3) | (1)/(2) | % | (1)/(3) | % |
| Public Sector | 2,673 | 2,249 | 1,451 | 424 | 19% | 1,222 | 84% |
| Global Clients | 7,757 | 7,036 | 6,849 | 721 | 10% | 908 | 13% |
| Corporate Clients | 6,020 | 8,134 | 4,950 | (2,114) | (26%) | 1,070 | 22% |
| Other*** | 93 | 96 | 358 | (3) | (3%) | (265) | (74%) |
| Total Institutional Banking | 20,069 | 21,223 | 16,954 | (1,154) | (5%) | 3,115 | 18% |

* In 2015 there was a change in the classification of customers by segment.

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).

*** 'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o., who are not clients of the Bank.



Key transactions and achievements in the area of Institutional Banking in the third quarter of 2016:

- In the Strategic and Global Clients segment:
 - Signing a loan agreement with a leading FMCG manufacturer to increase its 3-year loan from PLN 100 million to PLN 200 million and to increase its overdraft facility from PLN 60 million to PLN 100 million under a contract won by the Bank for current account services and financing products;
 - Extending a PLN 200 million loan to a commercial industry leader;
 - Signing supplier finance agreements with two strategic companies from a leading German energy group in Poland totaling PLN 30 million;
 - Winning a contract for cash deposit services for a major retailer;
 - Winning a contract for banking services covering a half of a retail client's chain stores;
 - Launching and developing cooperation in the area of comprehensive banking services for a leading automotive company;
 - Signing an escrow account agreement with a major automotive client.
- In the Commercial Bank segment, the Bank granted:
 - A PLN 55 million increase in syndicate financing to a book publisher;
 - A revolving guarantee credit line – a PLN 50 million increase in lending for works involving the construction of other civil engineering projects;
 - PLN 40 million in supplier finance to a manufacturer of other food products;
 - An overdraft facility of PLN 25 million and a long-term loan of PLN 15 million to a manufacturer of meat products;
 - A PLN 25 million stand-by arrangement to a plastic packaging manufacturer;
 - A PLN 23 million stand-by arrangement to a plastic products manufacturer;
 - A long-term loan of PLN 15 million to finance machinery, equipment and vehicles;
 - An overdraft facility of PLN 20 million to a manufacturer of other parts and accessories for motor vehicles;
 - An overdraft facility of PLN 20 million to a manufacturer of electrical and electronic equipment for motor vehicles.
- Client acquisition: within the Commercial Bank, 88 new clients were acquired in third quarter 2016, including 16 Large Enterprises, 52 Small and Mid-Size Enterprises, and 20 Public Sector clients. Further, the Bank acquired 9 accounts in the Strategic Clients and Global Clients segment.

Activity and business achievements of the Treasury Division

- Electronic foreign exchange channels continue to attract strong interest of customers. Nearly 80% of all foreign exchange transactions are executed using this channel. Thanks to the electronic platform CitiFX Pulse, clients can trade on their own 24/7, access market data before closing the deal, and use functionalities supporting the analysis of currency exposure;
- According to the "Rating & Market" report by Fitch Ratings, at the end of September 2016, the Bank held a 14.61% market share as an arranger of issues of bonds and certificates of deposit for banks and was ranked second among other market participants;
- In the end of third quarter 2016, the Bank was also active in the market of debt securities by participating in the following transactions:
 - Closing a PLN 1.25 billion securitization deal for a banking sector client in Poland;
 - Conducting a syndicated issue of 10-year bonds totaling PLN 1.1 billion for the European Investment Bank;
 - Closing a new lending deal as a bank club for a publishing industry client of up to PLN 390 million.

Transactional banking

The Bank is a leading provider of transactional banking services in Poland. The transactional banking offering includes the following products and services:

- Cash management products: deposits and current accounts, liquidity management products and e-banking;
- Card products;
- Payments and receivables: Direct Debit and SpeedCollect;
- Cash products;
- EU consulting;
- Trade finance products.

Business events and achievements of the Cash Management Department in the third 2016:

- **Electronic banking**

In the third 2016, further efforts were made to deliver a number of new solutions in the area of electronic banking to the Bank's clients. Electronic banking in figures:

- 3,400 institutional clients were activated within the CitiDirect Internet banking system and 3,200 within the CitiDirect EB (CitiDirect Evolution Banking);
- the number of active institutional system users remained high at almost 4,500;
- More than 3,400 clients enjoyed mobile access to both electronic banking systems;
- Almost 6.3 million transactions were processed through CitiDirect and CitiDirect EB.

- **Deposits and current accounts**

The third quarter 2016 saw an increase in the balances of institutional client accounts due to the mobilization of existing and new clients. In the third quarter 2016, average monthly balances of current accounts at the Bank grew by 18% in comparison to the corresponding period in 2015, while PLN account balances gained 24% compared to the corresponding period in 2015.

- **Prepaid cards**

In the third quarter 2016, the Bank recorded a significant increase in the value of non-cash transactions with Prepaid Cards compared to the same period of 2015. The number of non-cash transactions increased by 69% while the value of transactions with Prepaid Cards increased by 47% YoY. In addition, the Bank increased the number of cards issued by 43% compared to the third quarter 2015.

Furthermore, as part of a project involving the implementation of prepaid cards to be issued in cooperation with MasterCard, the Bank carried out largest deployment of those cards in Poland. The Bank is reinforcing its leading position in product offering owing to active efforts towards the commercialization of its innovative product solution for custom product parameterization.

It is noteworthy that the Bank, as one of few banks offering prepaid products, complies with the revised legal requirements in this area.

- **Business cards**

In the third quarter 2016, there was a significant increase in the number and value of non-cash transactions, by 3% and 4%, respectively, compared to the second quarter 2016. At the same time, the number of cash transactions increased by 5% qoq and by as much as 20% over September 2016 compared to August 2016. The main reason behind that growth²¹

is the consistent policy which involves attracting high transaction volumes and mobilizing the current client portfolio.

- **International fund transfers**

The Bank boasts a comprehensive and extensive settlement offering in more than 130 currencies throughout the world. Integrated settlement services comprise a combination of remote access channels and product offerings in the area of international settlements. In response to client needs, the Bank introduced a multi-currency account for simple, convenient and effective fund transfers in exotic currencies without the need to open foreign currency accounts or to maintain local accounts abroad. Given the range of available currencies, the Bank offers a unique approach on the Polish market.

The Bank is actively operating in the field of FX orders. The number of SEPA payments increased by 4% comparing to the third quarter 2015.

- **Direct debit**

The Bank provides its clients with comprehensive receivables management services. This service offering includes the direct debit market as one of its components. The Bank maintained its leading position on the Polish market in Q3 2016, having settled almost 47% of all transactions as the creditor's bank. In pursuance of its direct debit development and process digitization strategies, the Bank took proactive efforts to improve product performance, applying a digital direct debit approval process. Half of direct debit approvals were executed using the digital format.

- **Speedcollect**

SpeedCollect is a service for creditors receiving bulk payments which enables the automatic posting of receivables. The virtual account functionality allows creditors to encode important information in the account number, for instance the customer's number or a number of its business unit that accounts for the revenue. SpeedCollect Plus is an extension of the virtual accounts functionality. The service allows not only for the automatic identification and reporting of the amounts credited to accounts, but also for the reconciliation of such transactions against additional information provided by creditors, thus supplying comprehensive settlement information. The volume of transactions remains equally high as it was in the same period of 2015.

- **Cash products**

The Bank provides its clients with comprehensive cash management services. A vast majority of over-the-counter deposits are closed, which means that they are delivered to the Bank in sealed packages and counted without the customer being present. The service is offered by more than 1,200 cash service centers throughout the country. The share of cash in the domestic market is consistently very high.

Additionally, the Bank provides open cash deposit services via more than 4,500 establishments in partnership with Poczta Polska S.A.

Cash deposits can be made directly to clients' accounts maintained by the Bank. The Bank offers the option to make cash deposits to virtual accounts, and in consequence, the information necessary for the proper identification of payments is included directly in the account number, minimizing the risk of erroneous (non-identifiable) receipts.

In view of client needs, the Bank implemented a solution to optimize the activities involved in the preparation of deposits, enabling the tracking of the status of closed cash deposits and reporting of expected inflows.

In addition to over-the-counter deposits, the Bank's clients can also make cash withdrawals – both traditional over-the-counter withdrawals and sealed cash packages.

The Bank extended its partnership with Poczta Polska S.A. The Bank's withdrawal offering includes cash withdrawals ordered via the Bank's electronic banking system and executed by all offices of Poczta Polska S.A. throughout the country, as well as money remittance services, which are convenient for clients as the cash is delivered directly to recipients.

- **EU-oriented advisory services**

In the third quarter 2016, the Bank continued the operating strategy that entrusted the banking sector with a major role in the process of distribution of EU funds under the Financial Perspective 2014-2020. The focus was both on projects that could be funded from national-level Operational Programmes (e.g. Smart Growth Operational Programme) and on Regional Operational Programmes.

It is noteworthy that the Bank initiated cooperation with universities. Its offering of consulting services involving the analysis of relevant and available sources of Union funding and preparation of application dossiers for university infrastructure thermal upgrading projects (for educational buildings) was received with a great deal of interest.

In the third quarter 2016, the EU Office prepared applications for funding on behalf of its clients under Measure 3.2.2 of the Smart Growth Operational Programme: Loan for technological innovation.

- **Trade finance products**

In the third quarter 2016, the Trade Finance Department consistently pursued its business development goals, mostly in the area of Supplier Finance Programs and Trade Credit. At the same time, its excellent service, innovative electronic platform and promotional activities contributed to increasing bank guarantee and L/C commitments.

Further to that, work was under in a strategic project in the area of financing of trade receivables under the portfolio

approach, mainly for telecom and energy customers. Key trade finance transactions in the third quarter 2016 included:

- Succeeding with a tender for syndicated financing of a fuel sector company for PLN 200 million;
- Development of a finance program under the Trade Credit scheme for an FMCG company totaling PLN 80 million;
- Providing a PLN 18 million guarantee requested by a heavy industry company.

• **Standard Audit File**

On 1 July 2016, Citi Handlowy gave its clients the option to obtain information on transactions recorded in accounts maintained by the Bank which they are required to provide to tax authorities in the form of a Standard Audit File (SAF). The solution is a response to the needs of Citi Handlowy's clients, in particular large enterprises, who are required by the provisions of the Tax Code (effective from 1 July 2016) to submit all or part of their fiscal books and vouchers at the request of a tax authority in a manner prescribed by legislation where fiscal books are kept using computer software. Citi Handlowy offers the option to provide clients with information on transactions recorded in bank accounts maintained by the Bank in the form of SAF-compatible files (XML files) covering a period of their choice. The underlying transaction data can also be provided to clients on an ongoing basis (as CSV files).

Custody services

The Bank is the leader of the domestic depository bank market. It offers both custody services for foreign institutional investors and depository services for domestic financial institutions, in particular pension funds, investment funds and unit-linked funds.

As at 30 September 2016, the Bank held 9,488 securities accounts.

In parallel, it served as a depository bank for five open-ended pension funds (OFE): MetLife OFE, Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE, Nordea OFE, and for four voluntary pension funds: MetLife DFE, Nationale-Nederlanden DFE, DFE Pekao and Generali DFE as well as the PFE Orange Polska occupational pension fund.

The Bank was also the depository bank for investment funds managed by the following Fund Management Companies (TFI): BZ WBK TFI S.A., PKO TFI S.A., Legg Mason TFI S.A. and Aviva Investors Poland TFI S.A.

Brokerage activities

The Group carries out capital market brokerage activities through Dom Maklerski Banku Handlowego S.A. ("DMBH"), a brokerage house wholly owned by the Bank.

In the third quarter 2016, DMBH intermediated in EOB trades representing 11.6% of stock turnover on the secondary market, once again ranking as the market leader. This had been the best quarter so far since the beginning of 2015 in terms of market share. The value of EOB trades executed via DMBH on the equity market of the Warsaw Stock Exchange (WSE) amounted to PLN 11.3 billion, increasing by 2.8% in comparison to the corresponding period in the previous year, while WSE turnover declined overall by 6.4%. The change from the previous quarter looks much better, as the value of EOB trades executed by the Company increased by as much as 32.7% vs. the 19.7% overall increase in turnover value on the Warsaw Stock Exchange.

At the end of third quarter 2016, DMBH was the Market Maker in respect of shares of 65 WSE-listed companies (including 20 companies included in the WIG20 stock market index). That represented 13.43% of all shares traded on the WSE main market.

DMBH has achieved record-breaking performance in the retail segment in 2016, driven by very successful subscriptions for closed-ended investment fund certificates carried out in cooperation with the Bank and sales of Treasury bonds. In this respect, third quarter 2016 was as successful as the previous quarters. Further, third quarter 2016 was marked by high activity of retail customers using the CitiFX Stocks transactional platform, which supports trading in shares and ETF instruments listed on major foreign exchanges, as well as OTC FX instruments, using financial leverage. Owing to advisory services, which are increasingly popular with CPC clients, revenues from fees on foreign markets substantially offset the drop in client activity which had been observed on the Warsaw Stock Exchange for several quarters.

DMBH maintained 11.8 thousand investment accounts at the end of third quarter 2016, which meant a 16% increase compared to the corresponding period in 2015 and a 2.6% increase from the end of the previous quarter. The number of accounts increased mainly due to the steady growth in the number of brokerage service agreements for FX and foreign market services delivered via the CitiFX Stocks platform.

In the third quarter this year, DMBH carried out a major capital market transaction:

- Pekao S.A. – DMBH was a Joint Bookrunner in the process of UniCredit S.p.A. treasury stock sale; the transaction was worth PLN X billion (and was settled in July).

Summary Income Statement and Balance Sheet

| Company's Name | Headquarter | % of authorized capital held by the Bank | Total assets 30.09.2016 | Total equity 30.09.2016 | Net financial result for the period of 01.01-30.09.2016 |
|-------------------------------------|-------------|--|----------------------------|----------------------------|--|
| | | % | PLN '000 | PLN '000 | PLN '000 |
| Dom Maklerski Banku Handlowego S.A. | Warszawa | 100.00 | 632,106 | 106,501 | 9,986 |

The key performance driver for DMBH is the activity of institutional investors (both domestic and foreign), which depends directly on the influx of new capital and on the cyclical nature of the domestic stock market.

Leasing activities

In connection with the March 2013 decision of the Bank's Management Board to limit the scope of leasing activities of the Bank's Group, the scope of activities of Handlowy Leasing Sp. z o.o. ("Handlowy-Leasing" or "HL") has been restricted to handling the lease agreements entered into by 30 April 2013. No new leasing agreements were concluded after that date by HL. The leasing product continues to be offered by the Bank; however, it is made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group. Currently, leasing services are provided under a cooperation agreement by two partners: Europejski Fundusz Leasingowy S.A. and CorpoFlota Sp. z o.o.

Summary Income Statement and Balance Sheet

| Company's Name | Headquarters | % of authorized capital held by the Bank | Total assets 30.09.2016 | Total equity 30.09.2016 | Net financial result for the period of 01.01-30.09.2016 |
|-----------------------------|--------------|--|----------------------------|----------------------------|--|
| | | % | PLN '000 | PLN '000 | PLN '000 |
| Handlowy-Leasing Sp. z o.o. | Warszawa | 100.00 | 49,097 | 36,220 | 8,013 |

2. Consumer Banking

2.1. Summary of the segmental results

| PLN '000 | Q3 2016 | Q3 2015 | Change | |
|--|----------------|----------------|-----------------|----------------|
| | | | PLN '000 | % |
| Net interest income | 142,981 | 138,327 | 4,654 | 3.4% |
| Net fee and commission income | 70,311 | 94,101 | (23,790) | (25.3%) |
| Net income on dividends | 22 | - | 22 | - |
| Net income on trading financial instruments and revaluation | 7,115 | 8,698 | (1,583) | (18.2%) |
| Net other operating income | (3,508) | (12,269) | 8,761 | (71.4%) |
| Total income | 216,921 | 228,857 | (11,936) | (5.2%) |
| General administrative expenses and depreciation | (162,782) | (171,415) | 8,633 | (5.0%) |
| Profit on sale of other assets | - | (11) | 11 | (100.0%) |
| Net impairment due to financial assets and provisions for granted financial liabilities and guarantees | (18,425) | 20,504 | (38,929) | (189.9%) |
| Tax on certain financial institutions | (5,194) | - | (5,194) | - |
| Profit before tax | 30,520 | 77,935 | (47,415) | (60.8%) |
| Cost/Income | 75% | 75% | | |

The key highlights that impacted the gross profit of the Consumer Banking Segment in third quarter 2016 when compared to the corresponding period of 2015 were as follows:

- an increase in interest income as a result of the credit portfolio growth and a decrease in interest expenses, which was achieved despite the substantial increase in the deposit balances as a result of interest rate cuts in order to adapt them to the market interest rates (interest rates were lowered mainly in the case of savings accounts and term deposits) and a favorable change in the structure of the deposit portfolio (increasing the share of current deposits while reducing fixed-term deposits);
- a decrease in net fee and commission income from investment products (as a consequence of the weakening market sentiment) and from credit insurance (in connection with the new regulatory requirements for group insurance), the decreases were partially offset by the implementation of new insurance products, both credit and non-credit, and adjusting the table of fees and commissions to the customer segmentation model in accordance with the Bank's strategy, i.e. preferential conditions only for those customers who have a deep relationship with

the Bank (free account maintenance, preferential FX rates and free investment advice);

- a decline in operating expenses as a result of lower staff expenses due to reduced headcount and lower costs in telecommunication fees and hardware purchase costs;
- increase in net impairment write-offs by PLN 39 million due to maturing of the impaired portfolio and the increase in the average age of the portfolio. At the same time in Q3, 2016 some of retail exposures worth PLN 70.4 million were sold for PLN 14.6 million.

2.2. Selected business data

| PLN '000 | Q3 2016 | Q2 2015 | Q3 2015 | Change QoQ | Change YoY |
|--|---------|---------|---------|------------|------------|
| Number of individual customers | 681.1 | 679.5 | 685.6 | 1.6 | (4.5) |
| Number of current accounts, including: | 458.2 | 456.2 | 467.0 | 2.0 | (8.8) |
| number of operating accounts* | 126.7 | 127.4 | 131.1 | (0.7) | (4.4) |
| Number of operating accounts newly acquired during the reported period | 12.1 | 13.0 | 14.2 | (0.9) | (2.1) |
| Number of saving accounts | 151.6 | 153.0 | 162.0 | (1.4) | (10.4) |
| Number of credit cards, including: | 699.0 | 698.0 | 698.5 | 1.0 | 0.5 |
| co-branded cards | 321.3 | 345.2 | 391.5 | (23.9) | (70.2) |
| Number of active credit cards | 632.8 | 631.8 | 698.5 | 1.0 | (65.7) |
| Number of debit cards, including: | 252.2 | 252.6 | 281.1 | (0.5) | (28.9) |
| PayPass cards | 252.2 | 252.6 | 267.9 | (0.5) | (15.7) |

*In the third quarter of 2016, there was a change in the classification of operating accounts. Previous quarters were adjusted.

Net receivables from individual clients – management view

| PLN '000 | 30.09.2016 | 31.12.2015 | 30.09.2015 | Change (1)/(2) | | Change YoY | |
|-----------------------------------|------------------|------------------|------------------|----------------|-------------|----------------|-------------|
| | (1) | (2) | (3) | PLN '000 | % | PLN '000 | % |
| Unsecured receivables, including: | 5,043,357 | 4,872,448 | 4,853,094 | 170,909 | 3.5% | 190,263 | 3.9% |
| Credit cards | 2,281,718 | 2,173,376 | 2,159,416 | 108,342 | 5.0% | 122,302 | 5.7% |
| Cash loans | 2,699,672 | 2,635,759 | 2,618,447 | 63,913 | 2.4% | 81,225 | 3.1% |
| Other unsecured receivables | 61,967 | 63,313 | 75,231 | (1,346) | (2.1%) | (13,264) | (17.6%) |
| Mortgage loans | 1,308,786 | 1,300,081 | 1,286,570 | 8,705 | 0.7% | 22,216 | 1.7% |
| Net client receivables | 6,352,143 | 6,172,529 | 6,139,664 | 179,614 | 2.9% | 212,479 | 3.5% |

2.3. Key Business Highlights

Bank accounts

• Current accounts

At the end of third quarter 2016, the Bank maintained 458 thousand individual accounts (vs. 467 thousand at the end of third quarter 2015), of which 268 thousand were PLN accounts and 189 thousand were in foreign currencies. The decrease in the number of accounts results from the Bank's strategy of acquisition of medium- and high-income clients. The change in the acquisition model and the continued deepening of relationships with existing clients are reflected in the increase in the total balance of current accounts, which exceeded PLN 4.94 billion at end of third quarter 2016, representing an increase by 31% compared to the corresponding period in the previous year.

• Savings accounts

The Bank maintained 151 thousand savings accounts at the end of third quarter 2016. The total balance of savings accounts was PLN 2.97 billion, vs. 162 thousand savings accounts with the total balance of PLN 2.92 billion in the corresponding period in the previous year. The decrease in savings account balances results from a change in the macroeconomic situation and the low interest rate policy persistently pursued by the MPC, which affects customer demand for such products.

• Changes in the offering

In July 2016, the Bank launched 3D Secure, a service addressed to its debit card clients, offering additional protection for online debit card purchases in the form of SMS text messages with one-time passwords to confirm transactions.

The third quarter 2016 was marked by continued support for the acquisition of new Citigold and Citigold Private Client individual accounts in the form of promotional interest on time deposits, gift certificates for retail purchases and another edition of the Citigold Recommendation program.

Credit cards

At the end of third quarter 2016, the Bank maintained 699 thousand credit cards. The card portfolio has been 25

continuing its upward trend since the beginning of 2016, while less and less card accounts are being closed.

The debt balance on credit cards as at the end of third quarter 2016 amounted to PLN 2.3 billion, i.e. it was 6% higher than in the same period in the previous year. As a result, the Bank consolidated its leading position on the credit card market in terms of the value of credit card debt, with a 25.4% market share according to figures from the end of September 2016.

In the third quarter 2016, the sale of credit cards increased by 43% compared to the corresponding period in the previous year. High activation and transaction levels were maintained among new clients. The structure of credit cards sold in the third quarter 2016 was dominated by the Citi Simplicity card with a share of 83%. As regards co-branded cards, Citibank World Credit Card had the highest share in sales at 12%, followed by Citibank PremierMiles Credit Card at 2%.

Our clients are tending more and more to choose a Citi card as their travel companion. In the third quarter 2016, we recorded a 10% increase in foreign transactions compared to the corresponding period in the previous year.

Cash advances and cash advances associated with credit card accounts

Cash advances stood at PLN 2.7 billion as at end September 2016, recording an increase by 3% compared to the corresponding period in the previous year. The total sales of cash advances amounted to PLN 1,222 million in the first three quarters of 2016.

In the third quarter 2016, the Bank carried on with its cash advance sales model, focusing on remote selling processes (over the telephone or via the Bank's online platform) and on simple direct sales processes, some of them being delivered through its innovative Smart branches.

Mortgage products

The balance of the mortgage loan portfolio as at end of third quarter 2016 was PLN 1.3 billion. Over the recent months, the Bank has expanded the availability of its mortgage lending offering to CPC, CitiGold and Citi Priority clients in cooperation with external partners from the property development sector and the real estate market.

Insurance and investment products

At the end of third quarter 2016, the total value of exposures in investment products (including investment products with insurance components, net of bi-currency investments) purchased by retail clients through the Bank was 1% lower than it was at the end of the corresponding period in 2015.

This was mainly due to the declining sales volume of investment funds and unit-linked funds driven by the volatile financial market situation and non-existent sales of unit-linked life insurance. On the other hand, an increase in sales was observed in the case of assets held for closed-ended investment funds and other financial instruments in accounts maintained by Dom Maklerski Banku Handlowego S.A. (DMBH).

In cooperation with DMBH, the Bank carried out 10 subscriptions of investment certificates issued by closed-ended investment funds over the first three quarters of 2016. As regards structured products, the Bank carried out 60 structured bond subscriptions. The bonds were denominated in PLN, USD and EUR.

2.4. Development of distribution channels

Online banking

There were 320 thousand active Citibank Online users at the end of third quarter 2016 i.e. those who logged in to the Citibank Online service at least once every 30 days, which represented a slight increase compared to the corresponding period in 2015. Active Citibank Online users accounted for 50% of the entire portfolio of the Bank's clients at the end of third quarter 2016.

Citi Mobile had more than 85 thousand active users at the end of third quarter 2016, understood as users who used mobile banking services at least once every 30 days. Active mobile banking users accounted for more than 10% of the entire retail portfolio, which means a 3 p.p. increase compared to the same period in 2015.

In the third quarter 2016, acquisition of credit cards via online channels increased by 65% compared to the third quarter 2015 and now accounts for 32% of total credit card acquisitions at the Bank. Online sales of cash advances and hire-purchase products increased by 208% compared to the third quarter 2015.

The Bank continues to work on its project to implement a new version of Citibank® Online for retail clients. The second stage was implemented in September, addressing the most common reasons for which clients call the Bank, such as blocked cards, handling of hire-purchase products, details of supplementary cards and contactless stickers, as well as exchange of documentation between the Bank and its clients. The second stage will be tested by the Bank staff and a group of clients in the form of personal interviews. The next implementation stage is scheduled for November.

Mobile banking

As at the end of the third quarter 2016, the number of mobile users (i.e. those who used Citi Mobile services on various devices at least once a month) reached 85 thousand, i.e. 19% of the Bank's clients demonstrating transactional activity, marking an increase by more than 5 p.p. in relation to the corresponding period in the previous year.

Since the launch of the Citi Mobile banking system in May 2010, the application has been downloaded 240,000 times.

Indirect and Direct Customer Acquisition

- **Direct sales**

Citi Handlowy continues the fast growth of its client portfolio in the Universal Bankers retail distribution channel, relying on three basic offerings: credit cards, cash advances and Citi Priority accounts. To acquire new customers, mobile bankers are present in the proximity of their clients, for example in malls across Poland's biggest cities, at gas stations, in movie theaters and during cultural and sports events. Cooperation with companies and office complexes is growing very fast as well and we are reaching a wide retail audience there. The continuous focus on process improvement and sales digitization allows us to deliver ever-improving sales performance.

2.5. Branch network

Smart Banking Ecosystem

With respect to its branch network, Citi Handlowy continues its client acquisition strategy relying on varied types and formats of contact points, tailored to individual target groups.

Citigold Private Client and Citigold account acquisition and management are the responsibility of Personal Relationship Managers at CPC and Citigold Centers across nine biggest cities in Poland. At the same time, the Bank continues to develop its remote service processes to offer an ever wider range of transactions without the need to visit a physical branch.

Acquisition of new clients, especially in the Emerging Affluent segment, and credit product sales are executed through a network of 16 Smart centers in busy areas of Polish cities. Additionally, the Bank is also present in places that are frequented by its prospective clients, relying on stands and mobile sales points at popular malls, movie theaters, airports and gas stations. Further, our Relationship Managers meet our clients during attractive marketing events and trade fairs.

The Bank focuses on building a light distribution chain while maximizing the use of remote channels in account acquisition and management. Citi Handlowy is working on a concept of Smart Mini establishments, to be launched in the fourth quarter 2016. Those sites will operate as small-scale sales and customer service points offering a broader range of client services and products than other similar establishments on the Polish market.

In addition, in the third quarter 2016 the Bank worked on changes to existing Smart outlets by continuously improving its processes and consistently driving digitization to deliver a faster and more convenient customer experience.

Number of branches and other Points of Sale/touch points

| | 30.09.2016 (1) | 31.12.2015 (2) | 30.09.2015 (3) | Change (1)/(2) | Change (1)/(3) |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Number of branches*: | 36 | 45 | 46 | (9) | (10) |
| HUB Gold | 8 | 8 | 8 | - | - |
| Smart HUB Gold | 2 | 2 | 2 | - | - |
| Blue | 9 | 18 | 19 | (9) | (10) |
| Investment Center | 2 | 2 | 2 | - | - |
| Smart branch | 14 | 14 | 14 | - | - |
| Corporate branch | 1 | 1 | 1 | - | - |

* Branches classified according to a type of provided services into: HUB Gold (branches with separate Citigold customer service zones), Blue (branches without separate Citigold zones), Investment Center and Smart.

9 Rating

As at end Q3 2016, the Bank had the following ratings awarded by Fitch Ratings ("Fitch"):

| | |
|-------------------------------|--------|
| Long-term Issuer Debt Rating | A- |
| Outlook | Stable |
| Short-term Issuer Debt Rating | F2 |
| Viability rating (VR)* | bbb+ |
| Support rating | 1 |

* Viability rating is the view of the intrinsic creditworthiness of an institution, independent of external factors.

As at end Q3 2016, the Bank had the following ratings awarded by Moody's Investors Service ("Moody's") based on public information:

| | |
|--|---------|
| Long-term deposit rating | A3 |
| Rating outlook for long term deposits | stable |
| Short-term deposit rating | Prime-2 |
| Baseline Credit Assessments (BCA) | Baa3 |
| Adjusted Basline Credit Assessments (Adjusted BCA) | Baa2 |
| Long-term Counterparty Risk Assessment | A2 |
| Short-term Counterparty Risk Assessment | Prime-1 |

10 Financial instruments disclosure

Fair value of financial assets and liabilities

The table below presents the fair value of financial assets and liabilities valued at amortised cost in consolidated statement of financial position.

| PLN '000 | 30.09.2016 | | 31.12.2015 | |
|------------------------------|---------------|------------|---------------|------------|
| | Balance value | Fair value | Balance value | Fair value |
| Financial assets | | | | |
| Amounts due from banks | 638,091 | 638,091 | 757,103 | 757,105 |
| Amounts due from customers | 18,561,265 | 18,575,013 | 18,975,471 | 19,051,525 |
| Financial liabilities | | | | |
| Amounts due to banks | 2,371,866 | 2,372,012 | 6,963,561 | 6,963,525 |
| Amounts due to customers | 30,520,264 | 30,520,091 | 31,586,303 | 31,585,503 |

With exception to information provided in the table above and investments in equity instruments available-for-sale valued at cost, the balance value of other assets and financial liabilities included in the consolidated statement of financial position are equal to fair value because of their short-term nature.

Investments in equity instruments available-for-sale valued at cost do not have value that is actively priced at the market and their fair value cannot be reliably estimated.

According to the Group's strategy, presented equity investments will be gradually reduced except for selected strategic investments in "infrastructure companies" that provide services to the financial sector. Particular entities will be sold at the most suitable time under market conditions.

In 9 months period of 2016, among all equity investments, where fair value could not be established, the Group sold Shares in Odlewnie Polskie S.A. The balance value of sold shares amounted to PLN 562 thousand and the profit on sales to PLN 2,466 thousand.

In 9 months period of 2015 the Group did not sell any capital investments, of which fair value could not have been credibly valued.

Valuation methods and assumptions used for the purposes of fair value

Fair value of assets and financial liabilities are calculated as follows:

- The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the Bank's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed. The Group applies the following methods of measurement of particular types of derivative instruments:
 - FX forwards – discounted cash flows model;
 - options – option market-based valuation model;
 - interest rate transactions – discounted cash flow model;
 - futures – current quotations.
- For valuation of securities' transactions current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves, including decrease of credit spread, if needed, are used for valuation.
- The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis, taking into account fluctuations in market interest rates and changes in margins during the financial period.

Starting from June 1st, 2015 there was introduced a new calculation model for the valuation of derivatives and exchange transaction in the system infrastructure.

Fair value included in consolidated statement of financial position

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets/liabilities valued directly on the basis of prices from an active market where the regular quotations and turnover are available.
The active market includes stock and brokerage quotes and quotes in pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include securities held-for-trading or available-for-sale;
- Level II: financial assets/liabilities valued on the basis of models based on input data from the active market presented in Reuters and Bloomberg systems. Depending on financial instruments, the following specific valuation techniques are used:
 - listed market prices for a given instrument or listed market prices for an alternative instrument,
 - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
 - other techniques, such as yield curves based on alternative prices for a given financial instrument;
- Level III: financial assets/liabilities valued on the basis of valuation techniques using relevant non-market parameters.

The tables below present values of financial instruments in the consolidated statement of financial position in accordance with a fair value classified by above levels.

As at 30 September 2016

| PLN '000 | Level I | Level II | Level III | Total |
|--|------------|-----------|-----------|------------|
| Financial assets | | | | |
| Financial assets held-for-trading | 1,686,909 | 1,042,519 | - | 2,729,428 |
| derivatives | - | 1,042,048 | - | 1,042,048 |
| debt securities | 1,649,132 | 471 | - | 1,649,603 |
| capital instruments | 37,777 | - | - | 37,777 |
| Hedging derivatives | - | 908 | - | 908 |
| Debt securities available-for-sale | 16,594,575 | 100,300 | - | 16,694,875 |
| Equity investments available for sale | 1,045 | - | 18,299 | 19,344 |
| Financial liabilities | | | | |
| Financial liabilities held-for-trading | 47,730 | 1,165,810 | - | 1,213,540 |
| short sale of securities | 47,730 | - | - | 47,730 |
| derivatives | - | 1,165,810 | - | 1,165,810 |
| Hedging derivatives | - | 75,957 | - | 75,957 |

As at 31 December 2015

| PLN'000 | Level I | Level II | Level III | Total |
|--|------------|-----------|-----------|------------|
| Financial assets | | | | |
| Financial assets held-for-trading | 4,307,386 | 2,679,898 | - | 6,987,284 |
| derivatives | 154 | 2,266,978 | - | 2,267,132 |
| debt securities | 4,279,640 | 412,920 | - | 4,692,560 |
| equity instruments | 27,592 | - | - | 27,592 |
| Hedging derivatives | - | 1,795 | - | 1,795 |
| Debt securities available-for-sale | 16,842,252 | 1,509,007 | - | 18,351,259 |
| Equity investments available for sale | 1,006 | - | 63,323 | 64,329 |
| Financial liabilities | | | | |
| Financial liabilities held-for-trading | 988,485 | 2,259,038 | - | 3,247,523 |
| short sale of securities | 988,102 | - | - | 988,102 |
| derivatives | 383 | 2,259,038 | - | 2,259,421 |
| Hedging derivatives | - | 112,383 | - | 112,383 |

On the 30th of September 2016 the amount of financial assets classified to the Level III includes the share of PLN 18,299 thousand in Visa Inc. On the 31st of December 2015 that amount includes the share of PLN 63,323 thousand in Visa₂₉

Europe Limited.

In the first half of 2016 The Management Board of Bank Handlowy w Warszawie S.A. has received the information regarding the final allocation of settlement of the Visa Europe Limited takeover by Visa Inc. As a result of a settlement, the Bank sold share owned by Visa Europe Limited and received:

- (a) EUR 15,838,604.03 in cash,
- (b) 5,751 Visa Inc. Series C preferred shares,
- (c) deferred payment settled after 3 years since the day of completing the transaction.

The deferred cash payment for the Bank is settled attributable to the Bank's share in the total payment when completing the transaction which includes 0.1220725995% and equals: EUR 1,220,726.00 (capital part of the deferred payment) and EUR 152,424.73 (interest part of the deferred payment).

On the 30th of September 2016 the net value of the shares including the discount amounted to PLN 18,299 thousand.

Changes in financial assets and liabilities in, measured at a fair value that was defined by using relevant parameters not-market based are presented below:

| PLN '000 | 01.01.-30.09.2016 | 01.01.-31.12.2015 |
|--------------------------------------|-------------------------------------|-------------------------------------|
| | Financial assets available-for-sale | Financial assets available-for-sale |
| | Equity investments | Equity investments |
| As at 1 January | 63,323 | - |
| Derecognition of valuation of shares | (63,323) | - |
| Recognition of valuation of shares | 17,355 | 63,323 |
| Revaluation | 944 | - |
| As at the end of period | 18,299 | 63,323 |

As a result of the final allocation of settlement of the Visa Europe Limited takeover by Visa Inc. in the first half of 2016 the Bank recognized the profit on sale of shares and minority interest (AFS) in the amount of PLN 92,975 thousand, including received cash, deferred payment payable after 3 years since the date of the transaction and the valuation of Visa Inc. preferred shares.

In the consolidated statement of financial position, except for assets described above, there are tangible assets available-for-sale, whose fair value decreased by sale cost is smaller than its carrying amount. In consequence, they are positioned in the consolidated statement of financial position at fair value, which as at 30 September 2016 was PLN 1,928 thousands (31 December 2015: PLN 1,928 thousands).

In the 9 month period of 2016 the Group has made no transfers between levels of instruments fair value due to established method of setting fair value.

In the 9 month period of 2016 the Group has not made any changes in classification criteria of financial instruments (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the 9 month period of 2016 the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

In the 9 month period 2016 there was no change in the business or economic situation, that could influence the fair value of Group's financial assets or liabilities, independently whether these assets and liabilities were presented in fair value or amortized cost.

On the 30th of September 2016 there was no significant change in fair value of financial instruments classified to portfolio available-for-sale in relation to the end of 2015. The decrease in the value of portfolio of financial instruments available-for-sale in relation to the end of 2015 was caused by a sell of Polish securities denominated in PLN and foreign currency dictated by the realization of profit.

The decrease in the value of portfolio of financial instruments held-for-trade in relation to the end of 2015 was caused by a sell of Polish securities denominated in PLN and foreign currency.

11 Impairment and provisions

| PLN '000 | As at 1 January 2016 | Increases | | | Decreases | | | As at 30 September 2016 |
|---|-------------------------|------------------------|--------|-----------------------|---|---|--------|-------------------------------|
| | | Write down creation | Other* | Write down release | Movement of receivables to write downs | Sale of receivables/oth er assets | Other* | |
| Impairment of financial assets | | | | | | | | |
| Amounts due from banks | 1,750 | 3,225 | - | (4,506) | - | - | (336) | 133 |

Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.
for the third quarter 2016

TRANSLATION

| PLN '000 | As at 1 January 2016 | Increases | | | Decreases | | | As at 30 September 2016 |
|---|-------------------------|------------------------|--------------|-----------------------|---|---|----------------|-------------------------------|
| | | Write down creation | Other* | Write down release | Movement of receivables to write downs | Sale of receivables/oth er assets | Other* | |
| Amounts due from customers | 585,406 | 140,145 | 9,993 | (92,799) | (45,053) | (16,627) | - | 581,065 |
| | 587,156 | 143,370 | 9,993 | (97,305) | (45,053) | (16,627) | (336) | 581,198 |
| Provisions for granted financial liabilities and guarantees | 10,451 | 14,175 | - | (14,206) | - | - | - | 10,420 |
| | 597,607 | 157,545 | 9,993 | (111,511) | (45,053) | (16,627) | (336) | 591,618 |
| Other assets impairment | | | | | | | | |
| Capital investment | 9,485 | - | - | - | - | (2,275) | - | 7,210 |
| Tangible assets available for sale | 1,401 | - | - | - | - | (13) | - | 1,388 |
| Other assets | 191 | 2,455 | - | (2,098) | (9) | - | (29) | 510 |
| | 11,077 | 2,455 | - | (2,098) | (9) | (2,288) | (29) | 9,108 |
| Total impairment of assets and provisions for granted financial liabilities and guarantees | 608,684 | 160,000 | 9,993 | (113,609) | (45,062) | (18,915) | (365) | 600,726 |
| Other provisions | | | | | | | | |
| Contentious issues | 10,522 | 903 | - | (4,821) | - | - | (3,308) | 3,296 |
| Restructuring | 2,521 | - | - | (669) | - | - | (1,119) | 733 |
| Total other provisions | 13,043 | 903 | - | (5,490) | - | - | (4,427) | 4,029 |

*Position "other" mainly covers FX differences and provisions used

| PLN '000 | As at 1 January 2015 | Increases | | | Decreases | | | As at 31 December 2015 |
|--|-------------------------|------------------------|--------------|-----------------------|---|---|----------------|------------------------------|
| | | Write down creation | Other* | Write down release | Movement of receivables to write downs | Sale of receivables/oth er assets | Other* | |
| Impairment of financial assets | | | | | | | | |
| Amounts due from banks | 2,880 | 3,900 | - | (4,972) | - | - | (58) | 1,750 |
| Amounts due from customers | 798,896 | 174,520 | 2,821 | (154,922) | (99,868) | (134,936) | (1,105) | 585,406 |
| | 801,776 | 178,420 | 2,821 | (159,894) | (99,868) | (134,936) | (1,163) | 587,156 |
| Provisions for granted financial liabilities and guarantee | 13,238 | 25,956 | - | (28,743) | - | - | - | 10,451 |
| | 815,014 | 204,376 | 2,821 | (188,637) | (99,868) | (134,936) | (1,163) | 597,607 |
| Other assets impairment | | | | | | | | |
| Capital investment | 11,440 | - | - | - | - | (1,955) | - | 9,485 |
| Tangible assets available for sale | 1,401 | - | - | - | - | - | - | 1,401 |
| Other assets | 266 | 689 | - | (716) | (2) | - | (46) | 191 |
| | 13,107 | 689 | - | (716) | (2) | (1,955) | (46) | 11,077 |
| Total impairment of assets and provisions for granted financial liabilities and guarantee | 828,121 | 205,065 | 2,821 | (189,353) | (99,870) | (136,891) | (1,209) | 608,684 |
| Other provisions | | | | | | | | |
| Contentious issues | 9,634 | 16,774 | - | (1,207) | - | - | (14,679) | 10,522 |
| Restructuring | 3,537 | 1,989 | - | (700) | - | - | (2,305) | 2,521 |

| PLN '000 | As at 1 January 2015 | Increases | | | Decreases | | | As at 31 December 2015 |
|-------------------------------|-------------------------|------------------------|--------|-----------------------|---|---|----------|------------------------------|
| | | Write down creation | Other* | Write down release | Movement of receivables to write downs | Sale of receivables/oth er assets | Other* | |
| Total other provisions | 13,171 | 18,763 | - | (1,907) | - | - | (16,984) | 13,043 |

*Position "other" mainly covers FX differences and provisions used

In the period 1 January – 30 September 2016 and in 2015 the Group has not made any value actualization write downs due to value loss of tangible assets, intangible assets and write downs reversals involving this subject.

12 Provision and asset due to differed income tax

| PLN '000 | 30.09.2016 | 31.12.2015 |
|---|----------------|----------------|
| Asset due to differed income tax | 407,125 | 568,132 |
| Provision due to differed income tax | (242,767) | (406,546) |
| Net asset due to differed income tax | 164,358 | 161,586 |

Provisions and assets due to differed income tax are show in the consolidated statement of financial position after compensation.

13 Purchase and sale transactions of tangible assets

In the period 1 January – 30 September 2016 the value of purchased by the Group components of "fixed assets" equaled PLN 19,383 thousand (in 2015: PLN 34,502 thousand); the value of sold components equals PLN 1,249 thousand (in 2015: PLN 6,248 thousand).

As at 30 September 2016 the Group has no significant contract liabilities due to future purchase of tangible assets.

14 Default or breach due to received credit agreement in respect of which there were no corrective action until the end of the reporting period

Between 1 January and 30 September 2016 in the Group has been no occurrence of default or breach due to received credit agreement.

15 Seasonality or periodicity of business activity

The business activity of the Group is not significantly influenced by seasonal or cyclical factors.

16 Issue, redemption and repayment of debt and equity securities

In the 9 month period of 2016 no issue, pay back or repurchase of debt or equity securities had place.

17 Paid or declared dividends

Dividends declared

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2015 on June 21, 2016. The Meeting resolved to appropriate the amount of PLN 611,486,928.00 for the dividend payment, which means that the dividend per one ordinary share is PLN 4.68. The dividend has cash character and the number of shares covered by the dividend equals to 130,659,600.

Simultaneously, the WZ resolved to set the date of the right to the dividend for July 4, 2016 (the day of the dividend) and the day of the dividend payment for July 21, 2016 (the day of the dividend payment) and at that day the dividend was paid.

18 Major events after the balance sheet date not included in the financial statements

- Continuing the transformation of the distribution system towards the Smart Banking Ecosystem and optimizing the operational model to further improve operational efficiency, in reference to the current report no. 22/2013 from October 22, 2013, Bank created a provision in the amount of PLN 15,371.
- On October 4, 2016 the Polish Financial Supervision Authority (KNF) identified the Bank as an Other Systemically Important Institution (O-SII) and imposed on the Bank, on an individual and consolidated basis, a requirement to hold an O-SIIs capital buffer in the amount equivalent to 0.25% of the total amount of the risk exposure calculated in accordance with Art. 92 (3) of the Capital Requirements Regulation – Regulation (EU) No. 575/2013. The KNF's decision is immediately enforceable.
- On November 9, 2016, Fitch Rating Agency ("Fitch") took rating actions of the Bank and) upgraded the Bank's Viability Rating to 'a-' from 'bbb+'. In its justification Fitch wrote that the upgrade of Handlowy's VR reflects a reassessment of the benefits of the Bank's conservative business model, low risk appetite, and strong capital and

liquidity buffers. The remaining ratings of the Bank were affirmed. At the same time the Bank was assigned two new ratings: National Long-term Rating assigned at 'AA+ (pol)' and National Short-term Rating assigned at 'F1+ (pol)'.

19 Changes in granted financial and guarantee commitments

The detailed specification of granted financial and guarantee commitments as at 30 September 2016 and changes in comparison with the end of 2015 are as follows:

| PLN '000 | State as at | | Change | |
|---|--------------------|--------------------|--------------------|---------------|
| | 30.09.2016 | 31.12.2015 | PLN '000 | % |
| Contingent liabilities granted | | | | |
| financial | 17,130,634 | 15,916,191 | 1,214,443 | 7.6% |
| Import letters of credit issued | 167,480 | 160,065 | 7,415 | 4.6% |
| Credit lines granted | 15,687,154 | 14,618,126 | 1,069,028 | 7.3% |
| Subscription of securities granted to other issuers | 1,276,000 | 1,138,000 | 138,000 | 12.1% |
| guarantees | 2,263,095 | 2,131,343 | 131,752 | 6.2% |
| Guarantees granted | 2,229,174 | 2,101,477 | 127,697 | 6.1% |
| Export letters of credit confirmed | 896 | 335 | 561 | 167.5% |
| Other | 33,025 | 29,531 | 3,494 | 11.8% |
| | 19,393,729 | 18,047,534 | 1,346,195 | 7.5% |
| Contingent liabilities received | | | | |
| financial (deposits to receive) | - | - | - | - |
| guarantees (guarantees received) | 16,802,883 | 15,470,264 | 1,332,619 | 8.6% |
| | 16,802,883 | 15,470,264 | 1,332,619 | 8.6% |
| Contingent transactions due to FX, securities and derivatives (granted/received liabilities) | | | | |
| Current* | 4,578,323 | 1,513,219 | 3,065,104 | 202.6% |
| Forward ** | 168,796,271 | 176,512,715 | (7,716,444) | (4.4%) |
| | 173,374,594 | 178,025,934 | (4,651,340) | (2.6%) |

*Foreign exchange and securities transactions with current value date

** Derivatives: FX, interest rate transactions and options

20 Changes in Group's structure

In the third quarter of 2016 the structure of the Group has not changed as a result of merger, obtaining or losing control of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

21 Achievement of 2016 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2016.

22 Information about shareholders

As at the day of publishing the Interim Statement for the third quarter 2016 the list of shareholders who held directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital is as follows:

| | Value of shares (PLN '000) | Number of shares | % shares | Number of votes at GM | % votes at GM |
|---|----------------------------|--------------------|--------------|-----------------------|---------------|
| Citibank Overseas Investment Corporation, USA | 391,979 | 97,994,700 | 75.0 | 97,994,700 | 75.0 |
| Other Shareholders | 130,659 | 32,664,900 | 25.0 | 32,664,900 | 25.0 |
| | 522,638 | 130,659,600 | 100.0 | 130,659,600 | 100.0 |

In the period between publishing the interim financial statements for the first quarter 2016, annual consolidated financial report for the first half of 2016 and publishing this report for the third quarter 2016 the structure of major shareholdings has not undergone any changes.

23 Ownership of issuer's shares by members of the Management Board and Supervisory Board

According to the best knowledge of the Bank – the dominant entity, the number of Bank's shares held by members of Management and Supervisory Board is presented below:

| Name and surname | Function | Number of shares on day of publishing the Interim Financial Statement for the third quarter 2016 | Number of shares on day of publishing the Annual Consolidated Financial Report for the first half of 2016 | Number of shares on day of publishing the Interim Financial Statement for the first quarter 2016 |
|--------------------|-------------------------------|--|---|--|
| Andrzej Olechowski | Chairman of Supervisory Board | 2,200 | 2,200 | 2,200 |
| Total | | 2,200 | 2,200 | 2,200 |

Managing and supervising officers have not declared any options for Bank's shares.

24 Information on pending court proceedings

In the third quarter 2016 there was no single proceeding regarding receivables and liabilities of the Bank or its subsidiary pending in court, public administration authority or an arbitration authority, the value of which would equal at least 10% of Bank's equity.

The total value of all legal proceedings regarding receivables, with the participation of the Bank and its subsidiaries, in the third quarter 2016 did not exceed 10% of the Bank's equity.

The total value of all legal proceedings regarding liabilities, with the participation of the Bank and its subsidiaries, in the third quarter 2016 did not exceed 10% of the Bank's equity.

In accordance with applicable regulations, the Group recognizes impairment losses for receivables subject to legal proceedings.

In the case of legal proceedings involving the risk of cash outflow due to fulfillment of the obligation created by the Group are adequate reserves.

As at 30 September 2016, the Bank was among others a party to 19 court proceedings associated directly with derivative transactions that have not been legally terminated: in 13 proceedings the Bank acted as a defendant and in 6 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. In the third quarter of 2016 one case ended legally binding and in favour of the Bank, regarding term financial transactions, where the Bank was defendant or plaintiff.

The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressee of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was a subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set up at the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. On April 28, 2016 there has been sent the extraordinary appeal to the Supreme Court.

In the third quarter 2016 the Group did not make any significant settlement due to court ended with the final judgment.

25 Information about significant transactions with related entities dealt on other than market terms.

In the third quarter of 2016, the Bank and its subsidiaries entered into transactions with related entities. All transactions with related entities were dealt on market terms.

26 Information about guarantee agreements

At the end of the third quarter of 2016, the total value of sureties and guarantees given by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's shareholders' equity.

27 Other significant information

On 14 June 2016 President of the Supervisory Board accepted Anil Wadhvani's resignation from the Supervisory Board Member, with 20 June 2016.

On 21 June 2016 Jenny Grey and Anand Selvakesari were appointed Members of the Supervisory Board by The Ordinary General Meeting of Shareholders for a three-year period.

On 30 June 2016 Dariusz Mioduski resigned from the function of Member of the Supervisory Board, with 30 June 2016.

On 22 September 2016 Marek Kapuściński was appointed Members of the Supervisory Board by The Extraordinary General Meeting of Shareholders for a three-year period.

28 Factors and events which could affect future financial performance of the Bank's Capital Group

The pace of interest rate increase in USA can affect international financial markets essentially. In case of sudden interest rate hikes in USA, the outflow of foreign funds from emerging markets, including Poland, will be a possible scenario. As a result Polish zloty will depreciate, and the cost of financing of business activities will increase for Polish enterprises and institutions.

The Brexit scenario is still the main source of uncertainty, that could enhance volatility on financial markets and affect companies investment mood negatively. At the moment it is hard to predict how the future EU – Great Britain relations will look like. In a longer perspective, the possibility of EU funds available for Poland and other Central and East European countries limitation, cannot be excluded.

The Polish enterprises uncertainty towards feasible reshaping of tax system can lead to postponement of decision on implementation of new investment projects. Assuming that the period of investment deterioration will be prolonged, it will have negative impact on Polish economy, decreasing the pace of economic growth in a 5 years horizon.

The currently developed project of act on support for bank clients with debt in Swiss franc does not bear any significant risks for banking sector stability. However if the shape of the project will be significantly changed, it can have visible impact on financial markets.

Interim condensed standalone financial statements of the Bank for the third quarter 2016

Condensed income statement

| | Third quarter | Third quarter | Third quarter | Third quarter |
|--|--|--|--|--|
| | period from 01.07.16 to 30.09.16 | accruals period from 01.01.16 to 30.09.16 | period from 01.07.15 to 30.09.15 | accruals period from 01.01.15 to 30.09.15 |
| <i>PLN '000</i> | | | | |
| Interest and similar income | 301,464 | 924,185 | 292,203 | 889,240 |
| Interest expense and similar charges | (54,783) | (180,066) | (64,115) | (167,994) |
| Net interest income | 246,681 | 744,119 | 228,088 | 721,246 |
| Fee and commission income | 148,969 | 449,412 | 168,667 | 492,659 |
| Fee and commission expense | (17,697) | (50,779) | (12,372) | (42,866) |
| Net fee and commission income | 131,272 | 398,633 | 156,295 | 449,793 |
| Dividend income | 31 | 28,957 | - | 22,957 |
| Net income on trading financial instruments and revaluation | 92,946 | 237,470 | 55,048 | 212,035 |
| Net gain on debt investment securities available-for-sale | 21,676 | 42,601 | - | 118,800 |
| Net gain on equity investment instruments available-for-sale | 1,534 | 95,441 | 2,232 | 2,232 |
| Net gain/(loss) on hedge accounting | 463 | 8,024 | 4,288 | 5,198 |
| Other operating income | 9,888 | 31,943 | 8,652 | 31,910 |
| Other operating expenses | (6,711) | (20,322) | (17,070) | (40,419) |
| Net other operating income | 3,177 | 11,621 | (8,418) | (8,509) |
| General administrative expenses | (264,397) | (831,056) | (275,636) | (853,302) |
| Depreciation and amortization | (17,040) | (52,474) | (17,226) | (50,995) |
| Profit on sale of other assets | 8 | 95 | 6 | 78 |
| Net impairment due to financial assets and provisions for granted financial liabilities and guarantees | (19,403) | (35,409) | 22,191 | 16,330 |
| Tax on certain financial institutions | (18,831) | (50,343) | - | - |
| Profit before tax | 178,117 | 597,679 | 166,868 | 635,863 |
| Income tax expense | (40,457) | (121,763) | (38,898) | (129,730) |
| Net profit | 137,660 | 475,916 | 127,970 | 506,133 |
| Weighted average number of ordinary shares (in pcs) | | 130,659,600 | | 130,659,600 |
| Earnings per share (in PLN) | | 3.64 | | 3.87 |
| Diluted net earnings per share (in PLN) | | 3.64 | | 3.87 |

Condensed statement of comprehensive income

| | Third quarter | Third quarter | Third quarter | Third quarter |
|---|--|--|--|--|
| | period from 01.07.16 to 30.09.16 | accruals period from 01.01.16 to 30.09.16 | period from 01.07.15 to 30.09.15 | accruals period from 01.01.15 to 30.09.15 |
| <i>PLN '000</i> | | | | |
| Net profit | 137,660 | 475,916 | 127,970 | 506,133 |
| Other comprehensive income, that might be subsequently reclassified to profit or loss | | | | |
| Net value of available-for-sale financial assets | 5,594 | (1,834) | (18,264) | (240,728) |
| Total comprehensive income | 143,254 | 474,082 | 109,706 | 265,405 |

Condensed statement of financial position

| | State as at | 30.09.2016 | 31.12.2015 |
|---|-------------|-------------------|-------------------|
| <i>PLN '000</i> | | | |
| ASSETS | | | |
| Cash and balances with the Central Bank | | 901,395 | 2,170,237 |
| Amounts due from banks | | 637,925 | 756,859 |
| Financial assets held-for-trading | | 2,691,651 | 6,959,692 |
| Hedging derivatives | | 908 | 1,795 |
| Debt securities available-for-sale | | 16,694,875 | 18,351,259 |
| Equity investments | | 124,571 | 299,946 |
| Amounts due from customers | | 18,459,746 | 18,847,968 |
| Tangible fixed assets | | 332,623 | 342,941 |
| Intangible assets | | 1,356,782 | 1,370,392 |
| Current income tax receivables | | 24,843 | 14,351 |
| Deferred income tax asset | | 165,226 | 162,059 |
| Other assets | | 180,201 | 162,873 |
| Non-current assets held-for-sale | | 1,928 | 1,928 |
| Total assets | | 41,572,674 | 49,442,300 |
| LIABILITIES | | | |
| Amounts due to banks | | 2,360,612 | 6,922,125 |
| Financial liabilities held-for-trading | | 1,213,540 | 3,247,523 |
| Hedging derivatives | | 75,957 | 112,383 |
| Amounts due to customers | | 30,564,053 | 31,764,349 |
| Provisions | | 13,769 | 22,814 |
| Other liabilities | | 699,682 | 590,640 |
| Total liabilities | | 34,927,613 | 42,659,834 |
| EQUITY | | | |
| Ordinary shares | | 522,638 | 522,638 |
| Share premium | | 2,944,585 | 2,944,585 |
| Revaluation reserve | | (165,643) | (163,809) |
| Other reserves | | 2,867,565 | 2,858,825 |
| Retained earnings | | 475,916 | 620,227 |
| Total equity | | 6,645,061 | 6,782,466 |
| Total liabilities and equity | | 41,572,674 | 49,442,300 |

Condensed statement of changes in equity

| <i>PLN '000</i> | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Total equity |
|--|--------------------|------------------|------------------------|-------------------|----------------------|------------------|
| Balance as at 1 January 2016 | 522,638 | 2,944,585 | (163,809) | 2,858,825 | 620,227 | 6,782,466 |
| Total comprehensive income, including: | - | - | (1,834) | - | 475,916 | 474,082 |
| Net profit | - | - | - | - | 475,916 | 475,916 |
| Net valuation of available-for-sale financial assets | - | - | (1,834) | - | - | (1,834) |
| Dividends paid | - | - | - | - | (611,487) | (611,487) |
| Transfer to capital | - | - | - | 8,740 | (8,740) | - |
| Balance as at 30 September 2016 | 522,638 | 2,944,585 | (165,643) | 2,867,565 | 475,916 | 6,645,061 |

| <i>PLN '000</i> | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Total equity |
|--|--------------------|------------------|------------------------|-------------------|----------------------|------------------|
| Balance as at 1 January 2015 | 522,638 | 2,944,585 | 52,622 | 2,857,317 | 971,423 | 7,348,585 |
| Total comprehensive income, including: | - | - | (240,728) | - | 506,133 | 265,405 |
| Net profit | - | - | - | - | 506,133 | 506,133 |
| Net valuation of available-for-sale financial assets | - | - | (240,728) | - | - | (240,728) |
| Dividends paid | - | - | - | - | (970,801) | (970,801) |
| Transfer to capital | - | - | - | 622 | (622) | - |
| Balance as at 30 September 2015 | 522,638 | 2,944,585 | (188,106) | 2,857,939 | 506,133 | 6,643,189 |

| <i>PLN '000</i> | Ordinary shares | Share premium | Revaluation reserve | Other reserves | Retained earnings | Total equity |
|--|--------------------|------------------|------------------------|-------------------|----------------------|------------------|
| Balance as at 1 January 2015 | 522,638 | 2,944,585 | 52,622 | 2,857,317 | 971,423 | 7,348,585 |
| Total comprehensive income, including: | - | - | (216,431) | 886 | 620,227 | 404,682 |
| Net profit | - | - | - | - | 620,227 | 620,227 |
| Net valuation of available-for-sale financial assets | - | - | (216,431) | - | - | (216,431) |
| Net actuarial profits on specific services program valuation | - | - | - | 886 | - | 886 |
| Dividends paid | - | - | - | - | (970,801) | (970,801) |
| Transfer to capital | - | - | - | 622 | (622) | - |
| Balance as at 31 December 2015 | 522,638 | 2,944,585 | (163,809) | 2,858,825 | 620,227 | 6,782,466 |

Condensed summary statement of cash flows

| PLN '000 | Third quarter | Third quarter |
|--|--------------------|------------------|
| | accruals | accruals |
| | period | period |
| | from 01.01.16 | from 01.01.15 |
| | to 30.09.16 | to 30.09.15 |
| Cash at the beginning of the reporting period | 2,354,108 | 1,732,844 |
| Cash flows from operating activities | (735,638) | 691,172 |
| Cash flows from investing activities | 119,291 | (22,115) |
| Cash flows from financing activities | (652,524) | (1,046,713) |
| Cash at the end of the reporting period | 1,085,237 | 1,355,188 |
| Increase/(decrease) in net cash | (1,268,871) | (377,656) |

Condensed additional information

1. Declaration of conformity

These interim condensed standalone financial statements have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting*, adopted by European Union and with other applicable regulations.

These interim condensed standalone financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the standalone financial statements of the Bank for the financial year ended 31 December 2015 and interim condensed consolidated financial statement of the Group for the third quarter 2016.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2014, item 133, as amended) the Bank is obliged to publish its financial results for the 9 month period ended 30 September 2016 which is deemed to be the current interim financial reporting period.

2. Significant accounting policies

Interim condensed standalone financial statements of the Bank for the third quarter of 2016 have been prepared in accordance with the Decree by virtue of which the issuer, being a parent entity, is not obliged to provide interim separate financial statements, on condition that it includes in the interim consolidated financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and condensed supplementary notes, comprising of information and data significant for the assessment of the issuer's financial standing and its profit or loss, but not presented in the interim consolidated financial statement. In addition, it's required to prepare the interim condensed financial statements in accordance with accounting principles adopted in the preparation process of the annual financial statements.

Principles adopted in the preparation process of these interim condensed standalone financial statement are consistent with the principles, described in the annual standalone financial statements of the Bank for the financial year ended 31 December 2015.

Other information and explanations concerning these interim condensed consolidated financial statements for the third quarter 2016 contain also all information and explanatory data essential for these interim condensed standalone financial statements.

The summary of Bank's financial results for the third quarter of 2016 is presented below.

Bank's financial results

For first three quarters of 2016 the Bank has generated profit before tax of PLN 598 million, in comparison to PLN 636 million in the corresponding period of 2015. Gross profit in third quarter 2016 was PLN 178 million, in comparison to PLN 167 million in the same period of 2015.

Net profit accruals (for January-September, 2016 period) was PLN 476 million in comparison to PLN 506 million of net profit in the corresponding period of 2015, while net profit in third quarter of 2016 was PLN 138, million in comparison to PLN 128 million of net profit in corresponding period of 2015.

The significant impact on the Bank's net profit in the third quarter 2016 had decrease of financial instruments result (trade financial instruments and revaluation, debt investment securities, equity investment instruments) by total of PLN 59 million (or 102.8%), increase of result on other operating income and expenses as well as result on sale of other assets by total of PLN 12 million, decrease in Bank's activity costs and general and administrative expenses and³⁹

depreciation by total of PLN 11 million (or 3.9%), decrease of interest and fees result by PLN 6 million (or 1.7%), decrease of result on hedge accounting by PLN 4 million, income tax on certain financial institutions in the amount of PLN 19 million, higher (net) impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities by PLN 42 million.

The interim condensed consolidated financial statements for the third quarter of 2016 will be available on the website of Bank Handlowy w Warszawie S.A. at www.citihandlowy.pl

Signature of the Vice-Director of
Financial Reporting and Control Department

Date and signature

10.11.2016

Signature of the Vice-President of
Management Board

Date and signature

10.11.2016