



## **Independent Registered Auditor's Report**

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

### ***Report on the financial statements***

We have audited the accompanying financial statements of Bank Handlowy w Warszawie S.A. (hereinafter called "the Bank"), Senatorska 16 Street, Warsaw, which comprise the statement of financial position as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year from 1 January to 31 December 2016 and a summary of significant accounting policies and other explanatory notes.

#### *Management and Supervisory Board's Responsibility*

The Bank's Management Board is responsible for the preparation of these financial statements, on the basis of correctly maintained books of account, and their fair presentation in accordance with the International Financial Reporting Standards as adopted by the European Union and in accordance with the applicable regulations. The Bank's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board and Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2016, item 1047 as amended).

#### *Auditor's Responsibility*

Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register (KRS) maintained by the District Court in Warsaw, with the reference number (KRS) 0000044655, and tax identification number (NIP) 526-021-02-28. Share capital amounts to PLN 10,363,900. Headquarters in Warsaw, Al. Armii Ludowej 14.



## **Independent Registered Auditor's Report (cont.)**

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the accompanying financial statements:

- a. give a true and fair view of the Bank's financial position as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January to 31 December 2016, in accordance with the International Financial Reporting Standards as adopted by the European Union and the applicable accounting policies;
- b. comply in terms of form and content with the applicable laws, including the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions of recognizing as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws of 2014, item 133 as amended) and the Bank's Memorandum of Association;
- c. have been prepared on the basis of correctly maintained books of account.

### **Report on Other Legal and Regulatory Requirements**

#### *Opinion on the Report on the Bank's operations*

Our opinion on the audit of the financial statements does not cover the Report on the Bank's operations.

The Bank's Management Board is responsible for the preparation of the Report on the Bank's operations in accordance with the Accounting Act, the Decree and the Banking Law of 29 August 1997 ("the Banking Law" – Journal of Laws of 2016, item 1988 as amended). Further, the Management Board and Supervisory Board are obliged to ensure that the Report on the Bank's operations meets the requirements of the Accounting Act.

With respect to our audit of the financial statements, our responsibility was to read the Report on the Bank's operations and consider whether the information included in this Report complies with the regulations of article 49 of the Accounting Act and the Decree and is consistent with the information in the related financial statements. Our responsibility was also to consider, based on the knowledge of the Bank, the Group and its environment obtained during the audit of financial statements and the consolidated financial statements, whether the Report on the Bank's operations does not contain any material misstatements. Further, in accordance with article 111 a par. 3 of the Banking Law, our responsibility was to audit the financial information included in section IV "Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A." of the Report on the Bank's and Group's operations. We carried out the audit in accordance with the scope described in paragraph *Auditor's Responsibility* above.

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## **Independent Registered Auditor's Report (cont.)**

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

In our opinion, the information contained in the Report on the Bank's operations for the year from 1 January to 31 December 2016 comply with the requirements of article 49 of the Accounting Act, the Decree and the Banking Law and is consistent with the information in the audited financial statements.

Further, based on the knowledge of the Bank and its environment obtained during our audit we have not identified any material misstatements in the Report on the Bank's operations.

With respect to our audit of the financial statements, our responsibility was also to read the Bank's Statement of Corporate Governance, which is a separate part of the Report on the Bank's operations. In our opinion, the Bank included information in accordance with the scope defined in the Decree, and information as indicated in the Decree, complies with the applicable regulations and is consistent with the information contained in the financial statements.

Auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Adam Celiński

Key Registered Auditor  
No. 90033

Warsaw, 21 March 2017

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## **Bank Handlowy w Warszawie S.A.**

### **Registered auditor's report on the audit of the financial statements for the year from 1 January to 31 December 2016**



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**Registered auditor's report on the audit of the financial statements  
for the year from 1 January to 31 December 2016**

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

**This report contains 16 consecutively numbered pages and consists of:**

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## I. General information about the Bank

- a. Bank Handlowy w Warszawie S.A. (“the Bank”) has its seat in Warsaw, Senatorska 16 Street.
- b. The Bank was formed on the basis of a Notarial Deed drawn up on 13 April 1870. The Memorandum of Association of the Bank was drawn up as a Notarial Deed at the Notary Public’s Office of Andrzej Przybyła in Warsaw on 31 March 1998 and registered with Rep. A No. 2189/98. On 22 February 2001, the Bank was entered in the Register of Businesses maintained by the District Court in Warsaw, XIX Business Department of the National Court Register, with the reference number KRS 0000001538.
- c. The Bank was assigned a tax identification number (NIP) 526-03-00-291 for the purpose of making tax settlements and a REGON number 000013037 for statistical purposes.
- d. As at 31 December 2016 the Bank’s share capital amounted to PLN 522,638 thousand and consisted of 130,659,600 ordinary shares, with a nominal value of PLN 4.00 each. Total equity as at that date amounted to PLN 6,723,926 thousand.
- e. As at 31 December 2016, the Bank’s shareholders were:

| Shareholder’s name                            | Number of shares held | Par value of shares held (PLN ‘000) | Type of shares held | Votes (%)    |
|---|-----------------------|-------------------------------------|---------------------|--------------|
| Citibank Overseas Investment Corporation, USA | 97,994,700            | 391,979                             | ordinary            | 75.0         |
| Other shareholders                            | 32,664,900            | 130,659                             | ordinary            | 25.0         |
|   | <b>130,659,600</b>    | <b>522,638</b>                      |                     | <b>100.0</b> |

- f. During the year the Bank’s operations comprised, among others:
- accepting cash placements payable on demand or on maturity and maintaining accounts for these placements;
  - maintaining other bank accounts;
  - clearing cash transactions;
  - granting loans and cash advances;
  - granting and confirming bank guarantees and opening and confirming letters of credit;
  - issuing payment cards and conducting transactions with the use of such cards;
  - conducting derivative transactions.

## I. General information about the Bank (cont.)

g. During the year the Management Board of the Bank comprised:

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- Sławomir S. Sikora President of the Management Board
- Witold Zieliński Vice President of the Management Board
- Barbara Sobala Vice President of the Management Board
- Maciej Kropidłowski Vice President of the Management Board
- David Mouillé Vice President of the Management Board
- Czesław Piasek Member of the Management Board
- Katarzyna Majewska Member of the Management Board  
from 11 January 2016

h. The Bank has the following related entities:

|  |   |                         |
|--|---|-------------------------|
| Citibank N.A.                            | - | ultimate parent company |
| Citibank Overseas Investment Corporation | - | parent company          |
| Handlowy-Leasing Sp. z o.o.              | - | subsidiary              |
| Dom Maklerski Banku Handlowego S.A.      | - | subsidiary              |
| PPH Spomasz Sp. z o.o. in liquidation    | - | subsidiary              |
| Handlowy Investments S.A.                | - | subsidiary              |
| Handlowy-Inwestycje Sp. z o.o.           | - | subsidiary              |

and companies belonging to the Bank's ultimate parent's group.

i. The Bank is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the bank has decided to prepare its financial statements in accordance with IFRS as adopted by the European Union as of 2005.

The decision to prepare the Bank's financial statements in accordance with these standards was made by the General Shareholders' Meeting in their Resolution No. 6 passed on 7 December 2004.

j. As the parent company of the Group, the Bank has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 21 March 2017. To better understand the Bank's financial position and its results of operations as the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.



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## II. Information about the audit

- a. The audit of the financial statements for the year from 1 January to 31 December 2016 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Adam Celiński (no. 90033).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Bank by Resolution No. 5/VI/2016 of the Supervisory Board dated 11 March 2016 in accordance with paragraph 18 of the Bank's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2016, item 1000 as amended).
- d. The audit was conducted in accordance with an agreement dated 25 May 2016, in the following periods:
  - interim audit from 3 October to 31 December 2016;
  - final audit from 2 January to 21 March 2017
- e. An audit was conducted in accordance with International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. The scope of an audit was influenced by an application of materiality. In accordance with these auditing standards, the concept of materiality is applied by the auditor at the planning stage and when conducting the audit as well as to evaluate the effect of misstatements identified and adjusted (if any) on the financial statements, and to form the opinion in the Independent Registered Auditor's Report.

An audit was designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. The misstatements are considered to be material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on a professional judgement, the certain quantitative thresholds for materiality were determined and documented, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped to determine the scope of the audit and the nature, timing and extent of the audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole. Therefore, all statements included in the Independent Registered Auditor's Report, including those related to the other legal and regulatory requirements, have been expressed considering the materiality determined in accordance with those auditing standards and the auditor's judgement.

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**Bank Handlowy w Warszawie S.A.**  
**Registered auditor's report on the audit of the financial statements**  
**for the year from 1 January to 31 December 2016**

**III. The Banks's results, financial position and significant items of financial statements**

**STATEMENT OF FINANCIAL POSITION as at 31 December 2016 (selected lines)**

|                                       |                        |                        | Change             |              | Structure         |                   |
|---------------------------------------|------------------------|------------------------|--------------------|--------------|-------------------|-------------------|
|                                       | 31.12.2016<br>PLN '000 | 31.12.2015<br>PLN '000 | PLN '000           | (%)          | 31.12.2016<br>(%) | 31.12.2015<br>(%) |
| <b>ASSETS</b>                         |                        |                        |                    |              |                   |                   |
| Cash and balances with Central Bank   | 665,755                | 2,170,237              | (1,504,482)        | (69.3)       | 1.5               | 4.4               |
| Amounts due from banks                | 586,973                | 756,859                | (169,886)          | (22.4)       | 1.3               | 1.5               |
| Financial assets held-for-trading     | 3,772,162              | 6,959,692              | (3,187,530)        | (45.8)       | 8.4               | 14.1              |
| Hedging derivatives                   | 12,244                 | 1,795                  | 10,449             | 582.1        | -                 | -                 |
| Debt securities available-for-sale    | 19,072,371             | 18,351,259             | 721,112            | 3.9          | 42.3              | 37.1              |
| Equity investments                    | 125,107                | 299,946                | (174,839)          | (58.3)       | 0.3               | 0.6               |
| Amounts due from customers            | 18,795,341             | 18,847,968             | (52,627)           | (0.3)        | 41.7              | 38.2              |
| Tangible fixed assets                 | 332,336                | 342,941                | (10,605)           | (3.1)        | 0.7               | 0.7               |
| Intangible assets                     | 1,349,810              | 1,370,392              | (20,582)           | (1.5)        | 3.0               | 2.8               |
| Receivables due to current income tax | 12,911                 | 14,351                 | (1,440)            | (10.0)       | -                 | -                 |
| Deferred income tax asset             | 199,354                | 162,059                | 37,295             | 23.0         | 0.4               | 0.3               |
| Other assets                          | 165,356                | 162,873                | 2,483              | 1.5          | 0.4               | 0.3               |
| Non-current assets held-for-sale      | 1,928                  | 1,928                  | -                  | -            | -                 | -                 |
| <b>TOTAL ASSETS</b>                   | <b>45,091,648</b>      | <b>49,442,300</b>      | <b>(4,350,652)</b> | <b>(8.8)</b> | <b>100.0</b>      | <b>100.0</b>      |

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**Bank Handlowy w Warszawie S.A.**  
**Registered auditor's report on the audit of the financial statements**  
**for the year from 1 January to 31 December 2016**

**III. The Bank's results, financial position and significant items of financial statements (cont.)**

**STATEMENT OF FINANCIAL POSITION as at 31 December 2016 (selected lines) (cont.)**

|  |                   |                   | Change             |               | Structure    |              |
|--|-------------------|-------------------|--------------------|---------------|--------------|--------------|
|  | 31.12.2016        | 31.12.2015        | PLN '000           | (%)           | 31.12.2016   | 31.12.2015   |
|  | PLN '000          | PLN '000          |                    |               | (%)          | (%)          |
| <b>LIABILITIES</b>                     |                   |                   |                    |               |              |              |
| Amounts due to banks                   | 2,303,627         | 6,922,125         | (4,618,498)        | (66.7)        | 5.1          | 14.0         |
| Financial liabilities held-for-trading | 1,305,614         | 3,247,523         | (1,941,909)        | (59.8)        | 2.9          | 6.6          |
| Hedging derivatives                    | 39,897            | 112,383           | (72,486)           | (64.5)        | 0.1          | 0.2          |
| Amounts due to customers               | 34,031,947        | 31,764,349        | 2,267,598          | 7.1           | 75.5         | 64.3         |
| Provisions                             | 22,068            | 22,814            | (746)              | (3.3)         | -            | -            |
| Other liabilities                      | 664,569           | 590,640           | 73,929             | 12.5          | 1.5          | 1.2          |
| <b>TOTAL LIABILITIES</b>               | <b>38,367,722</b> | <b>42,659,834</b> | <b>(4,292,112)</b> | <b>(10.1)</b> | <b>85.1</b>  | <b>86.3</b>  |
| <b>EQUITY</b>                          | <b>6,723,926</b>  | <b>6,782,466</b>  | <b>(58,540)</b>    | <b>(0.9)</b>  | <b>14.9</b>  | <b>13.7</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>    | <b>45,091,648</b> | <b>49,442,300</b> | <b>(4,350,652)</b> | <b>(8.8)</b>  | <b>100.0</b> | <b>100.0</b> |

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**Bank Handlowy w Warszawie S.A.**  
**Registered auditor's report on the audit of the financial statements**  
**for the year from 1 January to 31 December 2016**

**III. The Bank's results, financial position and significant items of financial statements (cont.)**

**INCOME STATEMENT for the financial year from 1 January to 31 December 2016 (selected lines)**

|  |                |                | Change          |               | Structure    |              |
|--|----------------|----------------|-----------------|---------------|--------------|--------------|
|  | 2016           | 2015           | Change          | (%)           | 2016         | 2015         |
|  | PLN '000       | PLN '000       | PLN '000        | (%)           | (%)          | (%)          |
| Interest and similar income  | 1,257,019      | 1,227,976      | 29,043          | 2.4           | 52.8         | 51.8         |
| Interest expense and similar charges   | (257,149)      | (265,266)      | 8,117           | (3.1)         | 15.9         | 16.7         |
| <b>Net interest income</b>   | <b>999,870</b> | <b>962,710</b> | <b>37,160</b>   | <b>3.9</b>    |              |              |
| Fee and commission income  | 591,196        | 655,465        | (64,269)        | (9.8)         | 24.8         | 27.7         |
| Fee and commission expense   | (64,795)       | (61,406)       | (3,389)         | 5.5           | 4.0          | 3.9          |
| <b>Net fee and commission income</b>   | <b>526,401</b> | <b>594,059</b> | <b>(67,658)</b> | <b>(11.4)</b> |              |              |
| Dividend income  | 29,005         | 22,957         | 6,048           | 26.3          | 1.2          | 1.0          |
| Net income on trading financial instruments and revaluation  | 345,671        | 290,708        | 54,963          | 18.9          | 14.5         | 12.3         |
| Net gain on debt investment securities available-for-sale  | 44,746         | 145,246        | (100,500)       | (69.2)        | 1.9          | 6.1          |
| Net gain on capital investment instruments available-for-sale  | 95,913         | 2,232          | 93,681          | 4,197.2       | 4.0          | 0.1          |
| Net gain on hedge accounting   | 9,553          | 7,949          | 1,604           | 20.2          | 0.4          | 0.3          |
| Net other operating income/(expense)   | 8,617          | (10,732)       | 19,349          | (180.3)       | 0.4          | 0.7          |
| General administrative expenses  | (1,108,862)    | (1,183,516)    | 74,654          | (6.3)         | 68.5         | 74.4         |
| Depreciation expense   | (69,128)       | (68,085)       | (1,043)         | 1.5           | 4.3          | 4.3          |
| Profit on sale of other assets   | 104            | 102            | 2               | 2.0           | -            | -            |
| Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted | (48,759)       | 16,411         | (65,170)        | (397.1)       | 3.0          | 0.7          |
| Tax on some financial institutions   | (69,311)       | -              | (69,311)        | -             | 4.3          | -            |
| <b>Profit before tax</b>   | <b>763,820</b> | <b>780,041</b> | <b>(16,221)</b> | <b>(2.1)</b>  |              |              |
| Income tax expense   | (159,621)      | (159,814)      | 193             | (0.1)         |              |              |
| <b>Net profit</b>  | <b>604,199</b> | <b>620,227</b> | <b>(16,028)</b> | <b>(2.6)</b>  |              |              |
| Total income   | 2,381,824      | 2,369,046      | 12,778          | 0.5           | <b>100.0</b> | <b>100.0</b> |
| Total expense  | (1,618,004)    | (1,589,005)    | (28,999)        | 1.8           | <b>100.0</b> | <b>100.0</b> |
| <b>Profit before tax</b>   | <b>763,820</b> | <b>780,041</b> | <b>(16,221)</b> | <b>(2.1)</b>  |              |              |

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**STATEMENT OF COMPREHENSIVE INCOME**  
**for the financial year from 1 January to 31 December 2016**

|  | <b>2016</b>     | <b>2015</b>     | <b>Change</b>   |              |
|--|-----------------|-----------------|-----------------|--------------|
|  | <b>PLN '000</b> | <b>PLN '000</b> | <b>PLN '000</b> | <b>(%)</b>   |
| <b>Net profit</b>  | <b>604,199</b>  | <b>620,227</b>  | <b>(16,028)</b> | <b>(2.6)</b> |
| <b>Other comprehensive income that may be reclassified to the income statement:</b>      |                 |                 |                 |              |
| Net valuation of financial assets available-for-sale                                     | (51,252)        | (216,431)       | 165,179         | (76.3)       |
| <b>Other comprehensive income which may not be reclassified to the income statement:</b> |                 |                 |                 |              |
| Net actuarial profits/(losses) on specific services program valuation                    | -               | 886             | (886)           | (100.0)      |
| <b>Total comprehensive income for the period</b>   | <b>552,947</b>  | <b>404,682</b>  | <b>148,265</b>  | <b>36.6</b>  |



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## Selected ratios characterising the Bank's financial position and results

The following ratios characterise the Bank's operating activities, financial results during the year and its financial position as at the balance sheet date compared with previous year:

|   | <b>2016</b>       | <b>2015</b>       |
|---|-------------------|-------------------|
| <b>Profitability ratios</b>   |                   |                   |
| Return on equity (net profit / average net assets) (1)  | 8.9%              | 8.8%              |
| Return on assets (net profit / average assets) (1)  | 1.3%              | 1.3%              |
| Interest margin (interest income / average interest-bearing assets) – (interest expense / average interest-bearing liabilities) (1) (3) | 2.2%              | 2.0%              |
| Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (1) (3)                              | 2.8%              | 2.6%              |
| C/I ratio (general administrative expenses and depreciation expense / profit/(loss) on banking activities) (2)                          | 57.2%             | 62.1%             |
| Cost of borrowings (interest expense / average interest-bearing liabilities) (1)  | 0.6%              | 0.6%              |
| Earnings per share (PLN)  | 4.6               | 4.7               |
|   | <b>31.12.2016</b> | <b>31.12.2015</b> |
| <b>Asset quality ratios</b>   |                   |                   |
| Impaired loans and advances to customers to gross loans and advances to customers   | 3.2%              | 3.5%              |
| Provision coverage of not impaired loans and advances   | 0.4%              | 0.3%              |
| Provision coverage of impaired loans and advances   | 76.3%             | 74.4%             |
| <b>Other ratios</b>   |                   |                   |
| Total Capital Ratio (TCR) (4)   | 17.2%             | 16.8%             |
| Share capital Tier I (PLN'000)  | 4,727,393         | 4,719,986         |
| Total regulatory capital requirement (PLN'000)  | 2,204,888         | 2,252,301         |

- 1) The average balances of balance sheet items were calculated on the basis of the balances of the individual items as at the beginning and the end of the current financial year and the previous financial year.
- 2) The profit/(loss) on banking activities defined as the profit before tax less general administrative expenses and depreciation expense and net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted and tax on some financial institutions.
- 3) Interest-bearing assets defined as balances with the central bank (excluding cash), amounts due from banks and from customers and investment securities and derivative instruments.
- 4) Ratio calculated according to the current at a given reporting moment rule: as of 31 December 2016 and 31 December 2015 according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

The above ratios have been calculated on the basis of the financial statements.

It was not the purpose of the audit to present the Bank in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Bank's operations and its circumstances.



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The following comments are based on information obtained during the audit of the financial statements.

The factors described below had a significant impact on the Bank's results of operations and on its financial position as at the balance sheet date:

- At the end of the financial year, the Bank's total assets amounted to PLN 45,091,648 thousand. During the year total assets decreased by PLN 4,350,652 thousand, i.e. by 8.8%.
- The assets were primarily financed by amounts due to customers at the end of 2016. As at 31 December 2016 the amounts due to customers amounted to PLN 34,031,947 thousand and represented 75.5% of total equity and liabilities – an increase by 11.2 pp. in comparison to 31 December 2015. An increase in the balance of amounts due to customers by PLN 2,267,598 thousand (i.e. by 7.1%) compared to the previous year, was mainly driven by increase of deposits from financial sector entities by PLN 1,288,389 thousand.
- As at the balance sheet date, amounts due to banks amounted to PLN 2,303,627 thousand, which represented a decrease by PLN 4,618,498 thousand, i.e. by 66.7% compared to the previous year. This was mainly due to a decrease of term deposits (by PLN 3,957,188 thousand, i.e. by 88.7%) and a drop of liabilities due to sold securities under repurchase agreements (by PLN 1,411,084 thousand, i.e. by 86.9%). At the same time, the balance of liabilities on current accounts has increased (by PLN 785,607 thousand, i.e. by 115.3%). The balance of term deposits from related parties decreased by PLN 3,620,302 thousand, i.e. by 89.9% compared to the previous year.
- Total equity as at 31 December 2016 amounted to PLN 6,723,926 thousand. A decrease of total equity by PLN 58,540 thousand, i.e. by 0.9% compared to the previous year was due to:
  - payment of dividend from the profit for 2015 in the amount of PLN 611,487 thousand;
  - decrease of revaluation reserve related to a difference from valuation of financial assets available-for-sale (net) by PLN 51,252 thousand;
  - net profit generated by the Bank in the amount of PLN 604,199 thousand in the audited financial year.
- As at 31 December 2016, the net balance of amounts due from customers amounted to PLN 18,795,341 thousand. At the end of 2016, the gross loan portfolio amounted to PLN 19,354,558 thousand and comprised mainly of loans and advances due from non-financial sector entities in the gross amount of PLN 16,051,239 thousand, unlisted debt securities from financial sector entities in the gross amount of PLN 1,199,671 thousand (securitization securities) and purchased receivables from non-financial sector entities in the gross amount of PLN 1,116,054 thousand. A drop of amounts due from customers was mainly due to a decrease of receivables from financial sector entities subject to securities sale and repurchase agreements by the gross amount of PLN 1,356,247 thousand (no balance at the end of 2016).



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- The balance of impairment allowances for amounts due from customers decreased by PLN 18,179 thousand, i.e. by 3.1% and as at 31 December 2016 amounted to PLN 559,217 thousand. This decrease resulted largely from a drop in the impairment individual loss (by PLN 37,759 thousand, i.e. by 13.0%). As at 31 December 2016, the share of impaired loans and advances in the total balance of loans and advances decreased by 0.3 pp. and amounted to 3.2%. The coverage ratio of impairment allowances for impaired loans and advances amounted to 76.3% and increased by 1.9 pp. compared to the end of 2015.
- As at the end of the audited year, amounts due from banks amounted to PLN 586,973 thousand and decreased by PLN 169,886 thousand, i.e. by 22.4% mainly due to a decrease of amounts in current accounts (by the gross amount of PLN 175,416 thousand) and deposits pledged as collateral of derivative instruments and stock market transactions (by the gross amount of PLN 127,472 thousand). At the same time, the balance of receivables due to purchased securities with a repurchase agreement has increased (by the gross amount of PLN 203,117 thousand).
- As at 31 December 2016, debt securities available-for-sale amounted to PLN 19,072,371 thousand and represented 42.3% of total assets. An increase of this balance by PLN 721,112 thousand, i.e. by 3.9% was due to the purchase of portfolio of bills issued by the National Bank of Poland of PLN 2,239,715 thousand, with a simultaneous decrease in portfolio of bonds and bills issued by the other banks of PLN 1,442,623 thousand.
- As at 31 December 2016, financial assets held-for-trading amounted to PLN 3,772,162 thousand and comprised mainly Treasury bonds in the amount of PLN 2,546,247 thousand and derivative financial instruments in the amount of PLN 1,167,134 thousand. The balance of the Treasury bonds valuation decreased by PLN 1,733,393 thousand, i.e. by 40.5% and derivative instruments valuation decreased by PLN 1,099,998 thousand, i.e. by 48.5%.
- The balance of the valuation of derivatives as at 31 December 2016 decreased on the assets side (financial assets held-for-trading) as well as the liabilities side (financial liabilities held-for-trading) primarily due to a drop in the value and quantity of open (at the balance sheet date) interest rate swaps (a decrease of PLN 1,057,803 thousand, i.e. by 69.0% on the assets side and PLN 1,105,383 thousand, i.e. 67.5% on the liabilities side). A decrease in the value and quantity of contracts was in particular due to the fact the Bank runs a compression of derivative transaction portfolios' periodically according to recommendation of "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation).
- In the first half of 2016 the Management Board of the Bank has received the information regarding final allocation of settlement transactions of the Visa Europe Limited takeover by Visa Inc. As at 31 December 2016 the net amount of preference shares after discount amounted to PLN 18,965 thousand and was presented as the amount of financial assets classified to the level III of fair value.



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- As at 31 December 2016 revaluation reserve was negative and amounted to PLN 215,061 thousand (at the end of 2015 revaluation reserve was negative and amounted to PLN 163,809 thousand). The change in the value of revaluation reserve was primarily due to a change in the valuation of financial assets available-for-sale.
- The profit before tax for the audited year amounted to PLN 763,820 thousand and was lower than the profit before tax for 2015 by PLN 16,221 thousand, i.e. by 2.1%. The profit before tax comprised mainly of: net interest income of PLN 999,870 thousand, net fee and commission income of PLN 526,401 thousand, net income on trading financial instruments and revaluation of PLN 345,671 thousand and net gain on capital investment instruments available-for-sale of PLN 95,913 thousand, reduced primarily by general administrative expenses of PLN 1,108,862 thousand. In 2016 tax on some financial institutions amounted to PLN 69,311 thousand (no charge in 2015).
- Net interest income amounted to PLN 999,870 thousand and increased by PLN 37,160 thousand, i.e. by 3.9% compared to the previous year. An increase of the net interest income was due to a growth of interest and similar income by PLN 29,043 thousand and a simultaneous decrease of interest expense and similar charges by PLN 8,117 thousand compared to the previous year. The largest changes in interest and similar income has occurred on interest income due to amounts from customers (an increase by PLN 61,702 thousand, i.e. by 8.0%) and income due to debt securities held-for-trading (a drop by PLN 25,265 thousand, i.e. by 34.4%).
- Net fee and commission income amounted to PLN 526,401 thousand in the audited year and was lower by PLN 67,658 thousand, i.e. by 11.4% compared to the previous year. This drop was due to a decrease of fee and commission income by PLN 64,269 primarily due to a drop of income from insurance and investment products (agency) by PLN 40,092 thousand. At the same time, fee and commission expense increased by PLN 3,389 thousand, i.e. by 5.5%, mainly due to a growth of payment and credit cards expenses by PLN 2,646 thousand.
- General administrative expenses amounted to PLN 1,108,862 thousand in the audited year (including administrative expenses which amounted to PLN 570,968 thousand and staff expenses which amounted to PLN 537,894 thousand) and decreased by PLN 74,654 thousand, i.e. by 6.3% compared to the previous year. A drop in the balance of this item was mainly due to a decrease of Bank Guarantee Funds costs of PLN 55,884 thousand and a decrease of expenses related to telecommunication fees and hardware purchases by PLN 11,151 thousand.
- Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted were negative in the audited year and amounted to PLN 48,759 thousand (in 2015 they were positive and amounted to PLN 16,411 thousand).
- As a result, in the audited year the Bank generated a net profit of PLN 604,199 thousand, which was lower by PLN 16,028 thousand, i.e. by 2.6% compared to the previous year.

The financial statements have been prepared on the assumption that the Bank will continue in operation as a going concern.



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**Bank Handlowy w Warszawie S.A.**  
**Registered auditor's report on the audit of the financial statements**  
**for the year from 1 January to 31 December 2016**

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**IV. The independent registered auditor's statement**

- a. The Management Board of the Bank provided all the information, explanations, and representations requested in the course of the audit and provided a representation letter confirming the completeness of the data included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The financial statements of the Bank for the year from 1 January to 31 December 2015 were approved by Resolution No. 3/2016 passed by the General Shareholders' Meeting on 21 June 2016 and filed with the National Court Register in Warsaw on 27 June 2016.
- d. We have assessed the operation of the accounting system. Our assessment covered in particular:
  - the accuracy of the documentation relating to business transactions;
  - the fairness, accuracy and verifiability of the books of account, including computerised books of account;
  - the methods used for controlling access to data and the computerised data processing system;
  - the safeguarding of the accounting documentation, books of account, and financial statements.

This assessment, together with our verification of individual items of the financial statements, provides the basis for expressing an overall and comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

- e. During the audit performed we have not identified any significant instances of Bank's non-compliance with banking regulatory norms during the period from 1 January 2016 to the day of issuance of this report. As at 31 December 2016, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolutions of Polish Financial Supervisory Authority and the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, included banking regulatory norms in relation, among others, to the following:
  - concentration of credit risk,
  - concentration of investments in shares,
  - classification of loans and guarantees to risk groups and creation of provisions for the risk associated with activities of banks,
  - liquidity measures,
  - level of obligatory reserve,
  - capital adequacy.



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**Bank Handlowy w Warszawie S.A.**  
**Registered auditor's report on the audit of the financial statements**  
**for the year from 1 January to 31 December 2016**

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

- f. As at the balance sheet date the total capital ratio (TCR) amounted to 17.15% and was correctly determined in accordance with CRR. This statement is based on recalculation of the quotient of own funds amounting PLN 4,727,393 thousand divided by risk weighted assets amounting to PLN 27,561,110 thousand as per COREP reporting prepared by the Bank as at the balance sheet date.
- g. The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.
- h. The information in the Report on Bank's operations for the year ended 31 December 2016 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2014, item 133 as amended) and is consistent with that presented in the financial statements.



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**Bank Handlowy w Warszawie S.A.**  
**Registered auditor's report on the audit of the financial statements**  
**for the year from 1 January to 31 December 2016**

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**V. Final information**

This report has been prepared in connection with our audit of the financial statements of Bank Handlowy w Warszawie S.A., Senatorska 16 Street, Warsaw. The financial statements were signed by the Bank's Management Board on 21 March 2017.

This report should be read in conjunction with the Independent Registered Auditor's Report dated 21 March 2017 to the General Shareholders' Meeting and the Supervisory Board of Bank Handlowy w Warszawie S.A., that includes the unqualified audit opinion on the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Adam Celiński

Key Registered Auditor  
No. 90033

Warsaw, 21 March 2017



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