



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).

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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%)

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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%)

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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*

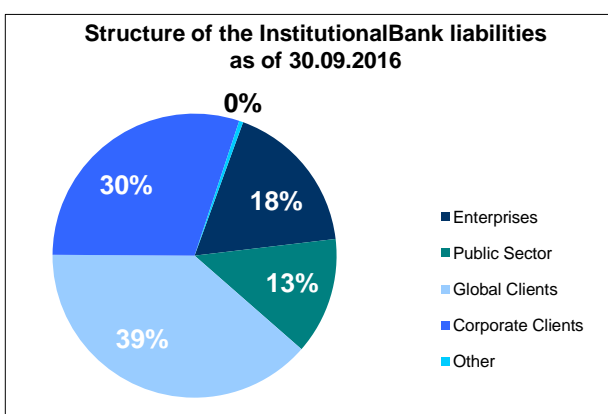
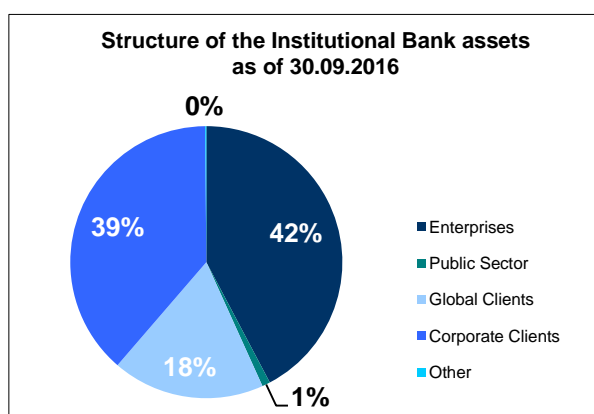
	30.09.2016	30.06.2016	30.09.2015	Change		Change	
				(1)/(2)	(1)/(3)		
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises**, including:	3,526	3,708	3,346	(182)	(5%)	180	5%
SMEs	2,291	2,329	2,326	(38)	(2%)	(35)	(2%)
MMEs	1,235	1,379	1,021	(144)	(10%)	214	21%

PLN million	30.09.2016	30.06.2016	30.09.2015	Change		Change	
	(1)	(2)	(3)	(1)/(2)	(1)/(3)	(1)/(3)	(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 Selvakasari 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