

## Subject: Preliminary consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for 2017

**Legal basis:** Art.17 (1) of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (MAR)

Bank Handlowy w Warszawie S.A. (hereinafter referred to "the Bank", "Citi Handlowy") hereby presents the preliminary consolidated data of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter referred to "the Group") for 2017.

In 2017 the Group posted a preliminary net profit of PLN 535.6 million, down by PLN 66.0 million (or 11.0%) versus the net profit for 2016. The 2017 consolidated profit before tax of PLN 707.1 million decreased by PLN 57.2 million (or 7.5%) as compared to the previous year.

At the same time the total revenue of the Group fell slightly by PLN 13.0 million (or 0.6%) to PLN 2,068.5 million. On the other hand, the core income defined as the sum of net interest income and net fee and commission income increased by 6.3% YoY.

The total revenue in 2016 was impacted by the recognition in the Bank's statements of a settlement of the transaction of acquisition of Visa Europe Limited by Visa Inc in the amount of PLN 93.0 million. Excluding the above-mentioned transaction, the Group's total revenue in 2017 grew by 4% YoY.

The preliminary standalone net profit of the Bank (distributable) for 2017 amounted to PLN 537.1 million, down by PLN 67.1 million (or 11.1%) as compared to the 2016 net profit.

The preliminary consolidated net profit for Q4, 2017 amounted to PLN 163.4 million, up by PLN 33.0 million (or 25.4%) as compared to the net profit for Q4, 2016.

In 2017 the Bank continued its cost control policy, as a result of which general administrative expenses and depreciation went down by PLN 10.5 million (or 0.9%).

In 2017 net impairment losses on financial assets and provisions for financial liabilities and guarantees granted amounted to PLN 103.2 million against PLN 45.8 million in the corresponding period of the previous year, i.e. growth by PLN 57.4 million. The Institutional Banking segment reported a higher level of impairment losses due to additional impairment provisions, mainly in the individually assessed portfolio in the Commercial Banking segment.

In 2017 the Group maintained a strong and safe capital base, with its CAR at the level of 17.9%.

### Consolidated income statement

PLN '000	01.01 – 31.12.2017	01.01 – 31.12.2016	Change	
			PLN '000	%
Net interest income	1,082,147	1,003,571	78,576	7.8%
Net fee and commission income	580,661	561,229	19,432	3.5%
Dividend income	9,428	8,050	1,378	17.1%
Net income on trade financial instruments and revaluation	346,275	347,197	(922)	(0.3%)
Net gain on debt investment securities	35,772	44,746	(8,974)	(20.1%)
Net gain on investment equity instruments	3,377	95,913	(92,536)	(96.5%)
Net gain on hedge accounting	10,261	9,553	708	7.4%
Net other operating income	556	11,205	(10,649)	-
<b>Total income</b>	<b>2,068,477</b>	<b>2,081,464</b>	<b>(12,987)</b>	<b>(0.6%)</b>
General administrative expenses and depreciation	(1,191,745)	(1,202,223)	10,478	(0.9%)
Net gain on sale of other assets	10,929	116	10,813	-
Net impairment losses on financial assets and provisions for financial liabilities and guarantees granted	(103,189)	(45,768)	(57,421)	125.5%
Share in net profits of entities valued at equity method	242	50	192	384.0%
Tax on some financial institutions	(77,634)	(69,311)	(8,323)	12.0%
<b>Profit before tax</b>	<b>707,080</b>	<b>764,328</b>	<b>(57,248)</b>	<b>(7.5%)</b>
Corporate income tax	(171,514)	(162,748)	(8,766)	5.4%
<b>Net profit</b>	<b>535,566</b>	<b>601,580</b>	<b>(66,014)</b>	<b>(11.0%)</b>

The main determinants of the net operating income of the Group in 2017 were the following:

- Net interest income was the main source of the Group's revenue in the year 2017 (52.3% of total revenue). It amounted to PLN 1,082.1 million compared to PLN 1,003.6 million in the 2016, up by PLN 78.6 million (or 7.8%).

Interest income in 2017 grew by PLN 92.8 million (or 7.4%) and amounted to PLN 1,351.4 million. Amounts due from customers, which are the main source of interest income, amounted to PLN 915.8 million, up by PLN 78.4 million (or 9.4%) compared to 2016 due to the positive impact of the credit margin and increasing credit volumes in the Institutional Banking segment accompanied by an increase in the average volume of unsecured receivables from individual clients. At the same time interest income from debt securities available-for-sale increased by PLN 10.6 million (or 3.4%) due to a higher average volume of bonds.

Interest expenses in 2017 grew by PLN 14.2 million (or 5.6%) compared to 2016. However, excluding „interest expenses and similar charges on derivative instruments in hedge accounting”, interest expenses dropped by PLN 4.7 million (or 2.3%) driven by a lower average volume of amounts due to banks. Amounts due to the entities of the non-financial sector were the main source of interest expenses and remained almost flat.

Interest income on derivative instruments in hedge accounting in 2017 improved by PLN 2.0 million (or 7.6%) compared to 2016.

## Net interest income

PLN '000	01.01 – 31.12.2017	01.01 – 31.12.2016	Change	
			PLN '000	%
<b>Interest and similar income from:</b>				
Balances with the Central Bank	16,885	17,918	(1,033)	(5.8%)
Amounts due from banks	22,086	19,926	2,160	10.8%
Amounts due from customers, including:	915,768	837,348	78,420	9.4%
Financial sector entities	50,042	31,069	18,973	61.1%
Non-financial sector entities, including:	865,726	806,279	59,447	7.4%
Credit cards	282,408	274,090	8,318	3.0%
Debt securities available-for-sale	322,023	311,412	10,611	3.4%
Debt securities held-for-trading	26,417	48,151	(21,734)	(45.1%)
Liabilities with negative interest rate	7,161	3,676	3,485	94.8%
Derivative instruments in hedge accounting	41,070	20,173	20,897	103.6%
<b>Total</b>	<b>1,351,410</b>	<b>1,258,604</b>	<b>92,806</b>	<b>7.4%</b>
<b>Interest expense and similar charges on:</b>				
Amounts due to Central Bank	-	(82)	82	(100.0%)
Amounts due to banks	(37,947)	(41,546)	3,599	(8.7%)
Amounts due to financial sector entities	(52,867)	(54,354)	1,487	(2.7%)
Amounts due to non-financial sector entities	(111,888)	(111,355)	(533)	0.5%
Loans and advances received	(500)	(866)	366	(42.3%)
Assets with negative interest rate	(1,240)	(945)	(295)	31.2%
Derivative instruments in hedge accounting	(64,821)	(45,885)	(18,936)	41.3%
<b>Total</b>	<b>(269,263)</b>	<b>(255,033)</b>	<b>(14,230)</b>	<b>5.6%</b>
<b>Net interest income</b>	<b>1,082,147</b>	<b>1,003,571</b>	<b>78,576</b>	<b>7.8%</b>

- net fee and commission income of PLN 580.7 million compared to PLN 561.2 million in 2016 – up by PLN 19.4 million (or 3.5%) was primarily a result of the upturn in financial markets in 2017, which had a positive impact on fee and commission income from custody services, including sale of structured products and fee and commission income from brokerage activity. Fee and commission income from payment and credit cards constituting the biggest source of net fee and commission income remained almost flat.

Fee and commission expenses increased in 2017 by PLN 4.2 million (or 5.3%) compared to 2016 primarily due to higher fees paid to the National Depository for Securities (KDPW).

## Net fee and commission income

PLN '000	01.01 – 31.12.2017	01.01 – 31.12.2016	Change	
			PLN '000	%
<b>Fee and commission income</b>				
Insurance and investment products	72,654	79,564	(6,910)	(8.7%)
Payment and credit cards	158,443	158,912	(469)	(0.3%)
Payment orders	105,913	105,469	444	0.4%
Custody services	122,805	108,376	14,429	13.3%
Cash loans	1,351	1,351	-	-

PLN '000	01.01 – 31.12.2017	01.01 – 31.12.2016	Change	
			PLN '000	%
Brokerage operations	53,688	48,173	5,515	11.4%
Cash management services	25,099	25,437	(338)	(1.3%)
Guarantees granted	19,289	18,435	854	4.6%
Financial liabilities granted	6,406	5,882	524	8.9%
Other	97,310	87,749	9,561	10.9%
<b>Total</b>	<b>662,958</b>	<b>639,348</b>	<b>23,610</b>	<b>3.7%</b>
<b>Fee and commission expense</b>				
Payment and credit cards	(28,571)	(27,623)	(948)	3.4%
Brokerage operations	(14,537)	(13,324)	(1,213)	9.1%
Fees paid to the National Depository for Securities (KDPW)	(19,782)	(17,481)	(2,301)	13.2%
Brokerage fees	(4,412)	(4,246)	(166)	3.9%
Other	(14,995)	(15,445)	450	(2.9%)
<b>Total</b>	<b>(82,297)</b>	<b>(78,119)</b>	<b>(4,178)</b>	<b>5.3%</b>
<b>Net fee and commission income</b>				
Insurance and investment products	72,654	79,564	(6,910)	(8.7%)
Payment and credit cards	129,872	131,289	(1,417)	(1.1%)
Payment orders	105,913	105,469	444	0.4%
Custody services	122,805	108,376	14,429	13.3%
Cash loans	1,351	1,351	-	-
Brokerage operations	39,151	34,849	4,302	12.3%
Cash management services	25,099	25,437	(338)	(1.3%)
Guarantees granted	19,289	18,435	854	4.6%
Financial liabilities granted	6,406	5,882	524	8.9%
Fees paid to the National Depository for Securities (KDPW)	(19,782)	(17,481)	(2,301)	13.2%
Brokerage fees	(4,412)	(4,246)	(166)	3.9%
Other	82,315	72,304	10,011	13.8%
<b>Net fee and commission income</b>	<b>580,661</b>	<b>561,229</b>	<b>19,432</b>	<b>3.5%</b>

- net income on trade financial instruments and revaluation of PLN 346.3 million versus PLN 347.2 million in 2016 and net gain on investment debt securities of PLN 35.8 million versus PLN 44.7 million in 2016, down by PLN 9.0;
- general administrative and depreciation expenses of PLN 1,191.7 million versus PLN 1,202.2 in the corresponding period of the previous year – a decrease of PLN 10.5 million (or 0.9%) was primarily driven by lower staff expenses partially offset by higher general administrative expenses. In 2017 staff expenses dropped by PLN 21.4 million (or 3.9%) versus 2016 as a result of declining headcount. The average employment in the Group in the reporting period declined by 221 FTEs. General administrative expenses grew due to higher costs of distribution of banking products by PLN 15.3 million and higher costs of advertising and marketing by PLN 15.1 million YoY as a result of promotional activities aimed at building Citi Handlowy brand awareness, partially offset by lower building maintenance and rent costs by PLN 15.1 million YoY following the transformation of the distribution model into the Smart Banking Ecosystem.

At the same time the costs of depreciation and amortization increased by PLN 3.2 million YoY due to the implementation of technology projects.

## General administrative expenses and depreciation expense

PLN '000	01.01 – 31.12.2017	01.01 – 31.12.2016	Change	
			PLN '000	%
<b>Staff expenses</b>	<b>(531,316)</b>	<b>(552,718)</b>	<b>21,402</b>	<b>(3.9%)</b>
Remuneration costs	(389,404)	(398,387)	8,983	(2.3%)
Bonuses and rewards	(80,020)	(88,368)	8,348	(9.4%)
Social security costs	(61,892)	(65,963)	4,071	(6.2%)
<b>Administrative expenses</b>	<b>(587,337)</b>	<b>(579,583)</b>	<b>(7,754)</b>	<b>1.3%</b>
Telecommunication fees and hardware purchase costs	(188,484)	(189,622)	1,138	(0.6%)
Costs of external services, including advisory, audit and consulting	(53,447)	(55,356)	1,909	(3.4%)
Building maintenance and rent costs	(69,409)	(84,469)	15,060	(17.8%)
Advertising and Marketing costs	(42,702)	(27,543)	(15,159)	55.0%
Cash management services, clearing house (KIR) services and other transactional costs	(39,076)	(39,247)	171	(0.4%)

PLN '000	01.01 – 31.12.2017	01.01 – 31.12.2016	Change	
			PLN '000	%
Costs of external services concerning distribution of banking products	(33,486)	(18,183)	(15,303)	84.2%
Postal services, office supplies and printmaking costs	(9,630)	(11,195)	1,565	(14.0%)
Training and education costs	(1,815)	(2,629)	814	(31.0%)
Banking and capital supervision costs	(3,258)	(1,435)	(1,823)	127.0%
Bank Guarantee Funds costs	(71,226)	(75,070)	3,844	(5.1%)
Other costs	(74,804)	(74,834)	30	(0.0%)
<b>Depreciation/amortization of tangible and intangible assets</b>	<b>(73,092)</b>	<b>(69,922)</b>	<b>(3,170)</b>	<b>4.5%</b>
<b>General administrative expenses and depreciation expense in total</b>	<b>(1,191,745)</b>	<b>(1,202,223)</b>	<b>10,478</b>	<b>(0.9%)</b>

- net impairment losses in 2017 of PLN 103,2 million compared to net impairment losses in 2016 of PLN 45.8 million – deterioration of PLN 57.4 million was observed mainly in the Institutional Banking segment (net impairment losses of PLN 51.4 million in 2017 compared to the reversal of net impairment losses of PLN 25.5 million in 2016), due to additional impairment provisions, mainly in the individually assessed portfolio in the Commercial Banking segment. At the same time in 2016 some recoveries of written-off receivables due from clients were recorded, which had a positive impact on net impairment losses. The Consumer banking segment reported a lower negative result in net impairment losses on financial assets, i.e. PLN 51.8 million compared to PLN 71.2 million in 2016, in connection with improving the quality of portfolio, especially regarding IBNR receivables.

### Net impairment losses on financial assets and provisions for financial liabilities and guarantees granted

PLN '000	01.01 – 31.12.2017	01.01 – 31.12.2016	Change	
			PLN '000	%
<b>Impairment write-downs</b>				
Amounts due from banks	(1,471)	(3,426)	1,955	(57.1%)
Amounts due from customers	(211,432)	(189,623)	(21,809)	11.5%
Amounts due from matured derivative transactions	(155)	(73)	(82)	112.3%
	<b>(213,058)</b>	<b>(193,122)</b>	<b>(19,936)</b>	<b>10.3%</b>
<b>Reversals of impairment write-downs</b>				
Amounts due from banks	512	4,592	(4,080)	(88.9%)
Amounts due from customers	99,810	106,612	(6,802)	(6.4%)
Amounts due from matured derivative transactions	1,545	7,693	(6,148)	(79.9%)
Recovers from sold debts	8,219	19,505	(11,286)	(57.9%)
Other	5,358	5,716	(358)	(6.3%)
	<b>115,444</b>	<b>144,118</b>	<b>(28,674)</b>	<b>(19.9%)</b>
<b>Net impairment losses on financial assets</b>	<b>(97,614)</b>	<b>(49,004)</b>	<b>(48,610)</b>	<b>99.2%</b>
Creation of provisions for financial liabilities and guarantees granted	(17,773)	(17,913)	140	(0.8%)
Release of provisions for financial liabilities and guarantees granted	12,198	21,149	(8,951)	(42.3%)
<b>Net provisions for financial liabilities and guarantees granted</b>	<b>(5,575)</b>	<b>3,236</b>	<b>(8,811)</b>	<b>(272.3%)</b>
<b>Net impairment losses on financial assets and provisions for financial liabilities and guarantees granted</b>	<b>(103,189)</b>	<b>(45,768)</b>	<b>(57,421)</b>	<b>125.5%</b>

- The total charge to the income statement of the Group due to the tax on certain financial institutions in 2017 amounted to PLN 77.6 million compared to PLN 69.3 million in 2016 (the increase is due to the fact that in 2016 the tax was paid for the first time in February).

### Consolidated statement of comprehensive income

PLN'000	01.01 – 31.12.2017	01.01 – 31.12.2016
<b>Net profit</b>	<b>535,566</b>	<b>601,580</b>
<b>Other comprehensive income, that might be subsequently reclassified to profit or loss:</b>		
Net valuation of financial assets available-for-sale	205,725	(51,230)
Exchange rates differences	(314)	753
<b>Other comprehensive income, that might be subsequently reclassified to profit or loss:</b>		

<i>PLN'000</i>	<b>01.01 – 31.12.2017</b>	<b>01.01 – 31.12.2016</b>
Net actuarial profits (losses) on specific services program valuation	(334)	278
<b>Other comprehensive income after tax</b>	<b>205,077</b>	<b>(50,199)</b>
<b>Total comprehensive income</b>	<b>740,643</b>	<b>551,381</b>

### **Consolidated statement of financial position**

As of December 31, 2017, total assets of the Group amounted to PLN 43,037.6 million, down 4.8 % compared to the end of 2016.

The change was predominantly due to the following events:

- decrease in debt securities available-for-sale by PLN 1.6 billion (or 8.6%), primarily due to the reduced position in NBP monetary bills and Treasury bonds;
- decrease in financial assets held-for-trading by PLN 1.6 billion (or 42.4%), mainly due to the decreasing value of the Treasury bonds portfolio.

The above decreases were partially offset by higher net receivables due from customers by PLN 1.0 billion (or 5.2%), which have the biggest share in the Group's total assets. Their share in total assets increased to 46.1% versus 41.7% as of the end of December 2016 and was mainly driven by increased lending to the non-financial sector (PLN 0.7 billion or 4.0%). Amounts due from customers in the non-financial sector increased both on the retail customers side (PLN 0.4 billion, or 6.0%; due to higher credit card and mortgage balances) and the institutional clients side (PLN 0.3 billion, or 2.8%; increase was reported in the GSG segment).

In 2017 amounts due to customers were the dominant source of financing of the Group's activity and constituted 74.7% of the Group's liabilities and own funds. Total amounts due to customers as of the end of 2017 amounted to PLN 32.1 billion, down by PLN 1.8 billion (or 5.3%) compared to the end of 2016, which was due to high term deposit balances held by institutional clients, including budgetary units. At the same time deposits of individual clients increased by PLN 0.4 billion (or 4.0%), mainly in the area of current accounts.

As compared to the end of 2016 amounts due to banks decreased by PLN 0.7 billion (or 32.1%), inter alia due to a lower level of liabilities under repo contracts.

### **Consolidated statement of financial position**

<i>PLN '000</i>	<b>State as at</b>		<b>Change</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>PLN '000</b>	<b>%</b>
<b>ASSETS</b>				
Cash and balances with the Central Bank	462,126	665,755	(203,629)	(30.6%)
Amounts due from banks	836,774	587,087	249,687	42.5%
Financial assets held-for-trading	2,179,925	3,781,405	(1,601,480)	(42.4%)
Derivative hedging instruments	-	12,244	(12,244)	(100.0%)
Debt securities available-for-sale	17,439,439	19,072,371	(1,632,932)	(8.6%)
Capital investments valued at equity method	10,664	10,471	193	1.8%
Equity investments available for sale	26,500	22,842	3,658	16.0%
Amounts due from customers	19,849,033	18,860,053	988,980	5.2%
Tangible fixed assets	376,775	342,971	33,804	9.9%
Intangible assets	1,352,413	1,350,861	1,552	0.1%
Income tax assets	667	13,901	(13,234)	(95.2%)
Deferred income tax asset	175,904	198,383	(22,479)	(11.3%)
Other assets	325,448	289,644	35,804	12.4%
Fixed assets held-for-sale	1,928	1,928	-	-
<b>Total assets</b>	<b>43,037,596</b>	<b>45,209,916</b>	<b>(2,172,320)</b>	<b>(4.8%)</b>
<b>LIABILITIES</b>				
Due to banks	1,568,376	2,310,742	(742,366)	(32.1%)
Financial liabilities held-for-trading	1,353,215	1,305,614	47,601	3.6%
Hedging derivatives	50,191	39,897	10,294	25.8%
Due to customers	32,136,698	33,936,511	(1,799,813)	(5.3%)
Provisions	18,300	22,856	(4,556)	(19.9%)
Current income tax liabilities	52,340	-	52,340	-
Other liabilities	919,593	803,846	115,747	14.4%

PLN '000	State as at		Change	
	31.12.2017	31.12.2016	PLN '000	%
<b>Total liabilities</b>	<b>36,098,713</b>	<b>38,419,466</b>	<b>(2,320,753)</b>	<b>(6.0%)</b>
<b>EQUITY</b>				
Share capital	522,638	522,638	-	-
Share premium	3,003,969	3,003,082	887	-
Revaluation reserve	(9,118)	(214,843)	205,725	(95.8%)
Other reserves	2,895,598	2,885,044	10,554	0.4%
Retained earnings	525,796	594,529	(68,733)	(11.6%)
<b>Total equity</b>	<b>6,938,883</b>	<b>6,790,450</b>	<b>148,433</b>	<b>2.2%</b>
<b>Total liabilities and equity</b>	<b>43,037,596</b>	<b>45,209,916</b>	<b>(2,172,320)</b>	<b>(4.8%)</b>

### Receivables from customers divided into at risk and not at risk of impairment

PLN '000	31.12.2017	31.12.2016	Change	
			PLN '000	%
Not at risk of impairment, including:	19,714,214	18,790,328	923,886	4.9%
non-financial sector	17,718,859	17,099,400	619,459	3.6%
institutional customers*	10,946,509	10,719,577	226,932	2.1%
individual customers	6,772,350	6,379,823	392,527	6.2%
At risk of impairment, including:	660,094	564,597	95,497	16.9%
non-financial sector	642,958	547,461	95,497	17.4%
institutional customers*	322,643	230,075	92,568	40.2%
individual customers	320,315	317,386	2,929	0.9%
Dues related to matured derivative transactions	62,508	68,549	(6,041)	(8.8%)
<b>Total gross receivables from customers, including:</b>	<b>20,436,816</b>	<b>19,423,474</b>	<b>1,013,342</b>	<b>5.2%</b>
non-financial sector	18,361,817	17,646,861	714,956	4.1%
institutional customers*	11,269,152	10,949,652	319,500	2.9%
individual customers	7,092,665	6,697,209	395,456	5.9%
<b>Impairment, including:</b>	<b>(587,783)</b>	<b>(563,421)</b>	<b>(24,362)</b>	<b>4.3%</b>
Dues related to matured derivative transactions	(54,295)	(60,057)	5,762	(9.6%)
<b>Total net receivables from customers</b>	<b>19,849,033</b>	<b>18,860,053</b>	<b>988,980</b>	<b>5.2%</b>
<b>Provision coverage ratio**</b>	<b>80.80%</b>	<b>89.20%</b>		
institutional customers*	68.30%	87.30%		
individual customers	92.30%	89.70%		
<b>Non-performing loans ratio (NPL)</b>	<b>3.20%</b>	<b>2.90%</b>		

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

\*\*Ratio calculated with IBNR impairment.

### Customer net receivables

PLN '000	31.12.2017	31.12.2016	Change	
			PLN '000	%
<b>Receivables from financial sector entities</b>	<b>1,995,017</b>	<b>1,690,254</b>	<b>304,763</b>	<b>18.0%</b>
<b>Receivables from non-financial sector entities including:</b>	<b>17,854,016</b>	<b>17,169,799</b>	<b>684,217</b>	<b>4.0%</b>
Institutional customers*	11,056,890	10,757,372	299,518	2.8%
Individual customers, including:	6,797,126	6,412,427	384,699	6.0%
Unsecured receivables	5,323,199	5,096,265	226,934	4.5%
Mortgage loans	1,473,927	1,316,162	157,765	12.0%
<b>Total net customer receivables</b>	<b>19,849,033</b>	<b>18,860,053</b>	<b>988,980</b>	<b>5.2%</b>

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

### Receivables from individual clients – management view

PLN '000	31.12.2017	31.12.2016	Change	
			PLN '000	%
Unsecured receivables, including:	5 323 199	5 096 265	226 934	4,5%
Credit cards	2 535 457	2 345 649	189 808	8,1%
Cash loans	2 735 544	2 692 429	43 115	1,6%
Other unsecured receivables	52 198	58 187	(5 989)	(10,3%)
Mortgage loans	1 473 927	1 316 162	157 765	12,0%
<b>Total net individual clients' receivables</b>	<b>6 797 126</b>	<b>6 412 427</b>	<b>384 699</b>	<b>6,0%</b>

## Customer liabilities

PLN '000	31.12.2017	31.12.2016	Change	
			PLN '000	%
<b>Current accounts of:</b>	<b>22,660,986</b>	<b>22,973,094</b>	<b>(312,108)</b>	<b>(1.4%)</b>
financial sector entities	531,361	671,625	(140,264)	(20.9%)
non-financial sector entities, including:	22,129,625	22,301,469	(171,844)	(0.8%)
corporate customers*, including:	13,593,215	14,021,387	(428,172)	(3.1%)
budgetary units	2,826,740	3,126,039	(299,299)	(9.6%)
individual customers	8,536,410	8,280,082	256,328	3.1%
<b>Term deposits from:</b>	<b>9,284,167</b>	<b>10,834,365</b>	<b>(1,550,198)</b>	<b>(14.3%)</b>
financial sector entities	4,321,787	4,014,335	307,452	7.7%
non-financial sector entities, including:	4,962,380	6,820,030	(1,857,650)	(27.2%)
corporate customers*, including:	3,150,070	5,151,137	(2,001,067)	(38.8%)
budgetary units	96,966	110,660	(13,694)	(12.4%)
individual customers	1,812,310	1,668,893	143,417	8.6%
<b>Total customers deposits</b>	<b>31,945,153</b>	<b>33,807,459</b>	<b>(1,862,306)</b>	<b>(5.5%)</b>
<b>Other liabilities to customers</b>	<b>191,545</b>	<b>129,052</b>	<b>62,493</b>	<b>48.4%</b>
<b>Total liabilities towards customers</b>	<b>32,136,698</b>	<b>33,936,511</b>	<b>(1,799,813)</b>	<b>(5.3%)</b>

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

## Impact of IFRS 9 implementation (estimates, the final impact will be presented in the 2017 annual financial report)

In connection with the implementation of IFRS 9 standard, the Group hereby presents the structure of financial assets as of January 1, 2018, divided in a new way based on the rules of determining impairment provisions:

- Stage 1 (normal exposures, expected losses in a 12-month period) – represents ca. 87% of total financial assets of the Group;
- Stage 2 (instruments for which there was a significant increase in credit risk (SICR), expected losses till maturity) – represents ca. 7% of total financial assets of the Group;
- Stage 3 (assets for which there has been objective proof of impairment, expected losses till maturity) – represents ca. 6% of total financial assets of the Group.

The total estimated negative impact of the IFRS 9 standard calculated as of January 1, 2018 on Tier 1 and TCR is negative and amounts to below 21 basis points.

The Bank decided that for the needs of capital adequacy assessment, based on Article 1 paragraph 9 of the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending the Regulation (EU) 575/2013, it will not adopt the transition period in respect of IFRS 9 impact, and it will choose the one-time recognition of the impact of IFRS 9 implementation on own funds.

## Financial ratios and employment data

In 2017, the key financial ratios were as follows:

Ratios	2017	2016
ROE	8,5%	9,6%
ROA	1,2%	1,3%



Cost/Income	58%	58%
Interest margin on total assets	2,5%	2,2%
Interest margin on interest-bearing assets	2,7%	2,4%
Non-financial sector loans/ Non-financial sector deposits	66%	59%
Capital adequacy ratio	17,9	17,4

## Employment in the Group

In full time job equivalents (FTE)	01.01 – 31.12.2017	01.01 – 31.12.2016	Change	
			FTEs	%
Average employment in the period	3,561	3,782	(221)	(5.8%)
Employment at the end of quarter	3,487	3,640	(153)	(4.2%)

## Consolidated income statement of the Group by business segments

For the period	01.01 – 31.12.2017			01.01 -31.12.2016		
	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
<i>PLN '000</i>						
Net interest income	501,716	580,431	1,082,147	439,590	563,981	1,003,571
Net fee and commission income	282,705	297,956	580,661	275,333	285,896	561,229
Dividend income	1,634	7,794	9,428	1,537	6,513	8,050
Net income on trade financial instruments and revaluation	316,484	29,791	346,275	315,565	31,632	347,197
Net gain on debt investment securities	35,772	-	35,772	44,746	-	44,746
Net gain on capital investment instruments	3,377	-	3,377	29,436	66,477	95,913
Net loss on hedge accounting	10,261	-	10,261	9,553	-	9,553
Net other operating income	19,123	(18,567)	556	21,348	(10,143)	11,205
General administrative expenses	(484,315)	(634,338)	(1,118,653)	(492,989)	(639,312)	(1,132,301)
Depreciation and amortization	(19,504)	(53,588)	(73,092)	(20,985)	(48,937)	(69,922)
Profit on sale of other assets	10,836	93	10,929	116	-	116
Net impairment due to financial assets and provisions value for granted financial and guarantees liabilities	(51,365)	(51,824)	(103,189)	25,477	(71,245)	(45,768)
<b>Operating income</b>	<b>626,724</b>	<b>157,748</b>	<b>784,472</b>	<b>648,727</b>	<b>184,862</b>	<b>833,589</b>
Share in net profits (losses) of entities valued at equity method	242	-	242	50	-	50
Tax on some financial institutions	(56,077)	(21,557)	(77,634)	(50,173)	(19,138)	(69,311)
<b>Profit before tax</b>	<b>570,889</b>	<b>136,191</b>	<b>707,080</b>	<b>598,604</b>	<b>165,724</b>	<b>764,328</b>
Income tax expense			(171,514)			(162,748)
<b>Net profit</b>			<b>535,566</b>			<b>601,580</b>