citi handlowy

Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the Third Quarter 2017

November 2017

SELECTED FINANCIAL DATA	PLN '000 Third quarter accruals period from 01.01.17 to 30.09.17	PLN '000 Third quarter accruals period from 01.01.16 to 30.09.16	EUR '000*** Third quarter accruals period from 01.01.17 to 30.09.17	EUR '000*** Third quarter accruals period from 01.01.16 to 30.09.16
Data related to the interim condensed consolidated financial statements				
Interest income	994,999	925,368	233,754	211,813
Fee and commission income	497,011	486,710	116,762	111,406
Profit before tax	496,924	595,497	116,742	136,307
Net profit	372,205	471,266	87,442	107,871
Comprehensive income	508,084	470,051	119,364	107,593
Increase/(decrease) in net cash	169,100	(1,268,949)	39,727	(290,457)
Total assets*	44,228,329	45,209,916	10,263,937	10,219,240
Amounts due to banks*	2,581,080	2,310,742	598,984	522,320
Amounts due to customers*	32,323,832	33,936,511	7,501,295	7,671,002
Equity	6,706,322	6,709,120	1,556,316	1,555,918
Ordinary shares	522,638	522,638	121,287	121,205
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	51.33	51.35	11.91	11.91
Total capital adequacy ratio (%)*	17.3	17.1	17.3	17.1
Earnings per share (PLN / EUR)	2.85	3.61	0.67	0.83
Diluted earnings per share (PLN / EUR)	2.85	3.61	0.67	0.83
Data related to the interim condensed standalone financial statements				
Interest income	994,034	924,185	233,528	211,542
Fee and commission income	454,905	449,412	106,871	102,869
Profit before tax	493,163	597,679	115,858	136,806
Net profit	376,094	475,916	88,355	108,935
Comprehensive income	512,088	474,082	120,304	108,515
Increase/(decrease) in net cash	169,115	(1,268,871)	39,730	(290,439)
Total assets*	43,910,624	45,091,648	10,190,208	10,192,506
Amounts due to banks*	2,580,965	2,303,627	598,957	520,711
Amounts due to customers*	32,376,112	34,031,947	7,513,428	7,692,574
Equity	6,644,126	6,645,061	1,541,883	1,541,062
Ordinary shares	522,638	522,638	121,287	121,205
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	50.85	50.86	11.80	11.79
Total capital adequacy ratio (%)*	17.1	16.9	17.1	16.9
Earnings per share (PLN/EUR)	2.88	3.64	0.68	0.83
Diluted earnings per share (PLN / EUR)	2.88	3.64	0.68	0.83
Declared or paid dividends per share (PLN/EUR)**	4.53	4.68	1.05	1.09

**Comparative balance data according as at 31 December 2016.*

*** The presented ratios are related to declared dividend from the distribution of 2016 profit and dividend paid in 2016 from the distribution of 2015 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 2017 – 4.3091 (as at 31 December 2016: PLN 4.4240; as at 30 September 2016 – PLN 4.3120); 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 2017 - PLN 4.2566 (in the first, second and third quarter of 2016: PLN 4.3688).*

Contents

Condensed consolidated income statement

PLN '000	Third quarter period from 01.07.17 to 30.09.17	Third quarter accruals period from 01.01.17 to 30.09.17	Third quarter period from 01.07.16 to 30.09.16	Third quarter accruals period from 01.01.16 to 30.09.16
Interest and similar income	352,780	994,999	301,727	925,368
Interest expense and similar charges	(79,322)	(203,192)	(54,407)	(178,327)
Net interest income	**273,458**	**791,807**	**247,320**	**747,041**
Fee and commission income	164,929	497,011	165,524	486,710
Fee and commission expense	(18,732)	(61,148)	(21,021)	(60,454)
Net fee and commission income	**146,197**	**435,863**	**144,503**	**426,256**
Dividend income	**249**	**9,197**	**504**	**7,838**
Net income on trading financial instruments and revaluation	**93,525**	**246,456**	**93,127**	**238,363**
Net gain on debt investment securities available-for-sale	**12,942**	**28,803**	**21,676**	**42,601**
Net gain on equity investment instruments available-for-sale	**-**	**3,377**	**1,534**	**95,441**
Net gain/(loss) on hedge accounting	**2,891**	**6,445**	**463**	**8,024**
Other operating income	7,913	24,835	9,217	35,379
Other operating expenses	(6,694)	(24,789)	(6,721)	(20,564)
Net other operating income	**1,219**	**46**	**2,496**	**14,815**
General administrative expenses	**(260,266)**	**(857,708)**	**(270,659)**	**(849,053)**
Depreciation and amortization	**(18,566)**	**(54,045)**	**(17,197)**	**(53,091)**
Profit on sale of other assets	**10,514**	**10,544**	**8**	**95**
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	**(22,048)**	**(64,754)**	**(18,083)**	**(32,575)**
Operating income	**240,115**	**556,031**	**205,692**	**645,755**
Share in net profits of entities valued at equity method	**6**	**271**	**7**	**85**
Tax on certain financial institutions	**(19,267)**	**(59,378)**	**(18,831)**	**(50,343)**
Profit before tax	**220,854**	**496,924**	**186,868**	**595,497**
Income tax expense	**(49,288)**	**(124,719)**	**(41,951)**	**(124,231)**
Net profit	**171,566**	**372,205**	**144,917**	**471,266**
Including:				
Net profit attributable to Bank's shareholders		372,205		471,266
Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Earnings per share (in PLN)		2.85		3.61
Diluted net earnings per share (in PLN)		2.85		3.61

Condensed consolidated statement of comprehensive income

PLN '000	Third quarter period from 01.07.17 to 30.09.17	Third quarter accruals period from 01.01.17 to 30.09.17	Third quarter period from 01.07.16 to 30.09.16	Third quarter accruals period from 01.01.16 to 30.09.16
Net profit	**171,566**	**372,205**	**144,917**	**471,266**
Other comprehensive income, that might be subsequently reclassified to profit or loss:				
Net value of available-for-sale financial assets	51,829	134,137	5,618	(1,827)
Currency translation differences	102	(141)	(145)	612
Other comprehensive income, that cannot be subsequently reclassified to profit or loss				
Net actuarial profits on specific services program valuation	-	1,883	-	-
Other comprehensive income net of tax	**51,931**	**135,879**	**5,473**	**(1,215)**
Total comprehensive income	**223,497**	**508,084**	**150,390**	**470,051**

Including:				
Comprehensive income attributable to Bank's shareholders	**223,497**	**508,084**	**150,390**	**470,051**

Condensed consolidated statement of financial position

State as at	30.09.2017	31.12.2016
PLN '000		
ASSETS		
Cash and balances with the Central Bank	550,673	665,755
Amounts due from banks	604,926	587,087
Financial assets held-for-trading	2,310,845	3,781,405
Hedging derivatives	-	12,244
Debt securities available-for-sale	18,454,565	19,072,371
Equity investments valued at equity method	10,692	10,471
Equity investments available for sale	25,496	22,842
Amounts due from customers	19,898,658	18,860,053
Tangible fixed assets	344,358	342,971
Intangible assets	1,361,301	1,350,861
Current income tax receivables	203	13,901
Deferred income tax asset	174,969	198,383
Other assets	489,715	289,644
Non-current assets held-for-sale	1,928	1,928
Total assets	**44,228,329**	**45,209,916**
LIABILITIES		
Amounts due to banks	2,581,080	2,310,742
Financial liabilities held-for-trading	1,293,327	1,305,614
Hedging derivatives	55,200	39,897
Amounts due to customers	32,323,832	33,936,511
Provisions	12,333	22,856
Current income tax liabilities	26,070	-
Other liabilities	1,230,165	803,846
Total liabilities	**37,522,007**	**38,419,466**
EQUITY		
Ordinary shares	522,638	522,638
Share premium	3,003,969	3,003,082
Revaluation reserve	(80,706)	(214,843)
Other reserves	2,897,987	2,885,044
Retained earnings	362,434	594,529
Total equity	**6,706,322**	**6,790,450**
Total liabilities and equity	**44,228,329**	**45,209,916**

Condensed consolidated statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2017	**522,638**	**3,003,082**	**(214,843)**	**2,885,044**	**594,529**	**-**	**6,790,450**
Total comprehensive income, including:	-	-	134,137	1,742	372,205	-	508,084
Net profit	-	-	-	-	372,205	-	372,205
Currency translation differences from the foreign operations' conversion	-	-	-	(141)	-	-	(141)
Net valuation of available-for-sale financial assets	-	-	134,137	-	-	-	134,137
Net actuarial profits on specific services program valuation	-	-	-	1,883	-	-	1,883
Dividends paid	-	(129)	-	-	(592,083)	-	(592,212)
Transfer to capital	-	1,016	-	11,201	(12,217)	-	-
Balance as at 30 September 2017	**522,638**	**3,003,969**	**(80,706)**	**2,897,987**	**362,434**	**-**	**6,706,322**

PLN '000	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**

PLN '000	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:	-	-	(51,230)	1,031	601,580	-	551,381
Net profit	-	-	-	-	601,580	-	601,580
Currency translation differences from the foreign operations' conversion	-	-	-	753	-	-	753
Net valuation of available-for-sale financial assets	-	-	(51,230)	-	-	-	(51,230)
Net actuarial profits on specific services program valuation	-	-	-	278	-	-	278
Dividends paid	-	-	-	-	(611,587)	-	(611,587)
Transfer to capital	-	1,557	-	14,504	(16,061)	-	-
Balance as at 31 December 2016	**522,638**	**3,003,082**	**(214,843)**	**2,885,044**	**594,529**	**-**	**6,790,450**

Condensed consolidated statement of cash flows

PLN '000	Third quarter accruals period from 01.01.17 to 30.09.17	Third quarter accruals period from 01.01.16 to 30.09.16
Cash at the beginning of the reporting period	**672,882**	**2,354,352**
Cash flows from operating activities	903,212	(550,766)
Cash flows from investing activities	(42,245)	(30,555)
Cash flows from financing activities	(691,867)	(687,628)
Cash at the end of the reporting period	**841,982**	**1,085,403**
Increase/(decrease) in net cash	**169,100**	**(1,268,949)**

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 brokerage activity through its subsidiary.

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 30.09.2017	% of votes at the General Meeting of Shareholders 31.12.2016
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 2017 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 2016.

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 2017 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 of 2017 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 2016.

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 2016, 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 2017, 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 2017 to 30 September 2017 and for the consolidated statement of financial position as at 30 September 2017. Comparative financial data are presented for the period from 1 January 2016 to 30 September 2016 and for the consolidated statement of financial position as at 31 December 2016.

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

IFRS 9 "Financial Instruments"

Project and stage of IFRS 9 implementation

The Group is executing the IFRS 9 implementation under the leadership of the Steering Committee, which includes, among others, Board members responsible for the areas of finance and risk. In order to confirm the adequacy of adopted principles, the Group is benefiting from services provided by professional external entity.

The key assumption standing behind implementation schedule was to conduct independent and complex validation of newly prepared tools, covering a wide range of aspects including: correctness of methodological assumptions, assessment whether regulatory requirements are met, adequacy of the data used, quantitative tests and correctness of tools implementation in Bank's production environment. Results of the validation process, including an evaluation of the correctness of implementation in the Bank's systems is scheduled for the fourth quarter of 2017 year

The last point in the schedule planned for the end of 2017 is a series of training courses for Bank employees aimed at broadening knowledge about the changes.

The whole process of implementation, as per expectations of European Securities and Markets Authority, is monitored by the internal Audit Committee.

Classification and valuation

The Bank has analyzed agreements for the financial instruments held in order to evaluate their contract features in terms of classification and valuation according to IFRS 9:

- On the basis of the adopted and planned management method for financial asset portfolios in terms of the manner of execution of transfers from these asset groups, the Bank judges that as regards the business model criterion, there will be no changes to the classification and valuation of instruments in the Bank's portfolio as compared to the currently adopted approach according to IAS 39. The Bank provides loans and other forms of financing, which have so far been classified as loans and receivables according to IAS 39, in order to achieve capital and interest rate flows. Sales of receivables concern exposure with impaired credit quality. Only where a specific type of financing is promised or provided with the intention to sale will the Bank classify this type of exposure as measured at fair value through profit and loss.
- Following a review of contractual provisions on financial assets which may result in a particular financial asset failing to meet the SPPI condition, the Bank identified products in the retail area associated with a multiplier effect and is working towards the development of a model for fair value measurement in cooperation with a third party. Such products will be classified as products measured at fair value through profit or loss. It is currently impossible to estimate the impact of this measurement of the Bank's statements. Relying on the work performed as part of the SPPI test, the Bank did not find it necessary to measure corporate loan agreements at fair value.

The Bank did not acquire existing loan portfolios; however, as part of the evaluation of the ongoing restructuring, certain situations have been identified in the retail area, which may potentially require that an asset be removed from the balance sheet and reclassified as a purchased or originated credit-impaired asset (POCI). The scale of this phenomenon is marginal and will not significantly impact the financial statement.

The Bank holds equity instruments classified as financial assets available for sale according to IAS 39. According to IFRS 9, the Bank will classify them into financial assets measured at fair value through profit or loss. The Bank is working on their fair value measurement.

All of the above aspects are verified by an independent professional third party in order to ensure that the Bank's findings and identified obligations are correct.

Impairment

The Bank started implementation of IFRS 9 in 2016, at first focusing on checking the adequacy of the existing in Bank tools and models to the impairment requirements defined in Standard as well as on identifying gaps in the processes used to calculate provisions. Review has covered all existing products and portfolios. Bank adopted implementation schedule according to identified needs.

Implementation plan includes quantitative elements related to the analytical part, understood as the development of existing and construction of new risk assessment tools / models as well as qualitative elements, including changes in internal rules governing process of credit exposures management, provisions calculation and reporting, in particular internal documents regulating these processes.

Bank striving to optimize the workload assumed that most of the tasks will be performed in parallel, allowing efficient flow of information between various organizational units of the institution.

According to the adopted schedule, analytical work is divided into two main parts. For customers from Corporate and Commercial sectors work will be focused on adjusting existing tools used to assess the creditworthiness of the customer to the requirements of IFRS 9. Due to high credit quality of the portfolio, and hence low default rates, the biggest challenge is to calibrate PD Life Time model.

Second stream of work is devoted to Retail Banking Sector for which the Bank has partnered with an external consultant to create a tailor-made solution based on credit rating models. The aim is to develop uniform and coherent methodology covering all major retail products of the Bank. One of the challenges is appropriate calibration of the model, allowing for proper reflection of expected changes in macroeconomic conditions.

In connection with the implementation of standard, according to preliminary estimations, an increase in provision levels is expected which will affect Bank's capital ratios in the coming years. The increase in provisions is related to performing portfolio and has a twofold ground:

a) increase in the coverage for Stage 1 accounts from the period of LIP (Loss Identification Period) to 12 months,
b) necessity for the accounts qualified to Stage 2 to recognize the losses over the entire horizon of a account's life.

Additional volatility of the provision level will be stemming from including in the calculations forward looking factors, especially macroeconomic variables.

It should also be noted that the implementation of these regulations shall not affect the Bank's business model.

Hedge accounting program

There will be no changes to hedge accounting program used by Bank both in terms of the nature of the hedge relationship, as well as in respect of amounts. Modifications related to the need to adopt IFRS 9 are limited to internal documentation update and adjustment of the appropriate processes.

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

1. <u>Macroeconomic conditions and the situation in money and foreign exchange markets</u>

Economic growth in the third quarter of 2017 probably accelerated to 4.4% from 3.9% recorded in the second quarter of this year. This is indicated by the information on economic activity in the period from July to September 2017, which showed that industrial output accelerated to 6.5% from 4.3% in the second quarter of this year, but above all that construction output went up to 20% from 8.2% qoq. On the other hand, retail sales in real terms in the third quarter of this year slowed down to 7.1% from 7.9% yoy. Monthly data indicate that GDP growth in the third quarter of 2017 was fueled by further investment acceleration, as evidenced by better performance in construction, which is also helped by the effects of the EU fund inflows this year. At the same time, sales data indicate that private consumption in the third quarter of this year probably slowed down, although the growth rate remains solidly over 4% according to our estimates.

Good consumption is still the result of a very good situation on the labor market. The unemployment rate is gradually decreasing and in September 2017 it reached 6.8% compared to 7.1% in June and 8.3% at the end of last year. The high economic growth supports the demand for labor and the growth in employment in the third quarter of this year remained at about 4.5%. The gradually tightening conditions on the labor market led to a further rise in wage pressure, which began to materialize. Wage growth accelerated in the third quarter of 2017 to 5.9% yoy from 5.2% in the second quarter and 4.5% in the first quarter. As a result, the nominal wage fund accelerated to 10.7% yoy from 9.8% in the second quarter of 2017. The 500+ program still has a positive impact on consumption, but its contribution is getting smaller due to the growing base effect.

The good performance of major trading partners and the relatively weak zloty and high domestic demand translate positively into trade turnover. Exports in the period of July/August 2017 grew 12.3% compared to 9.2% in the second quarter, 13.7% in the first quarter and 3.2% in 2016. At the same time, the growth of imports decelerated to 10.2% from 12.4% in the second quarter and 15.4% in the first quarter compared to 2.8% in 2016.

The prices of consumer goods and services grew in the third quarter of 2017 at the average of 1.9% compared to 1.8% in the second quarter and 2% in the first quarter, and the average -0.6% last year. Inflation picked up considerably in the first months of the year, primarily due to higher fuel prices compared to the last year. In addition, food and energy prices also contributed to higher inflation. Also net inflation has been gradually increasing (to 1% in September from 0.8% in June and 0% in December), reflecting a strong domestic demand.

Despite the significant inflation growth in 2017 and the fall in real interest rates below zero, the Monetary Policy Council (MPC) did not decide to change interest rates. Official communications and press conferences following Monetary Policy Council meetings have long remained at a similar dovish tone. The Monetary Policy Council notes that there is no need to change interest rates in the coming months, and according to most MPC members, including the NBP President, probably until the end of 2018. On the other hand, a growing number of Council members point out that a rate hike may occur next year, and some expect this to happen in the first quarter of 2018 should wage pressures continue to materialize and inflationary pressures continue to intensify. In the base scenario, we expect interest rates to rise in the second half of 2018 after, as we project, the inflation exceeds the inflation target.

The zloty depreciated against the euro and gained against the dollar in the third quarter of 2017. The downward trend against the euro began in May and was influenced by many factors such as the rise in US interest rates, the growing geopolitical risk associated with North Korea and the referendum on Catalonia's independence or the expected election results in Germany. The EUR/PLN exchange rate rose to 4.31 at the end of September from 4.23 at the end of June, while the USD/PLN exchange rate fell to 3.65 from 3.70 at the end of June, and the zloty appreciation against the dollar was the result of a downward trend of the dollar against the euro. The beginning of October was marked by a zloty rebound against the euro and since the beginning of the year the zloty has been one of the best-behaving emerging market currencies against the euro, albeit partly due to the fact that a significant portion of these currencies is more closely linked to the dollar. Out of the Central European currencies which are mainly linked to the euro, only the Czech crown has strengthened more.

In the third quarter of 2017, the interest rate market witnessed an increase in swap rates throughout the curve, and in the debt market, yields fell at the short end of the yield curve with a rise in long-term bond yields. The decline in short-term yields was a continuation of the downward trend of the asset swap spread between bonds and swaps rates. The increase in long-term yields was small and could partly be attributed to the rise in inflation and the expected rate hikes in 2018. Bond prices were positively impacted, among other things, by the low borrowing needs this year resulting from good budget performance. Yields on two-year Treasury bonds dropped in the third quarter of 2017 to 2.15% from 2.35% in late June 2017. In turn, yields on 10Y bonds increased at the end of September to 3.38% against 3.33% at the end of June. At the end of the third quarter of 2017, WIBOR 3M stood at 1.73%, unchanged from the end of June and the end of last year.

2. Capital market situation

The third quarter of 2017 saw a still buoyant domestic equity market, although the rises were less spectacular than in the first six months of the year. The positive company share valuations at the Warsaw Stock Exchange were mainly due to rising commodity prices, which was reflected in the appreciation of the shares of mining, fuel and chemical companies.

With the exception of the smallest-capitalization companies index (which fell by 5.9% qoq), all the major indexes demonstrated positive growth rates over the last three months. Large market capitalization companies were among the most popular, with the WIG20 index rising by 6.7% on a price-weighted basis and by 7.9% in terms of total return (accounting for dividend). Mid-cap companies gained 1.6% compared to the levels reported as at the end of June.

Among sector sub-indices, companies representing the chemical, fuel and mining industry (+13.8%, +12.2% and +11.9% qoq, respectively) stood out against the rest of the market. On the other hand, food and construction companies came under greatest pressure, with their sector indices depreciating by 12.7% and 9.9% qoq, respectively.

Just as previous periods, the third quarter of 2017 saw few new stock exchange listings. Shares of 3 new companies appeared on the main market (including one transferred from the New Connect). Meanwhile, shares of 7 companies were delisted. As a consequence, the number of Warsaw Stock Exchange-listed companies fell to 479 (as compared to 484 in the same period in 2016). On the other hand, it is worth emphasizing the value of initial public offerings, which amounted to PLN 5.1 billion (mainly due to the IPO of Play Communications) and was at the highest level since the third quarter of 2011.

As at the end of the third quarter of 2017, the total market value of all entities listed on the main market of the Warsaw Stock Exchange exceeded PLN 1,428 billion (47% of which was generated by Polish companies), as compared to PLN 948 billion one year before and PLN 1,316 billion as at the end of June 2017.

Equity market indices as of 30 September 2017

Index	30 September 2017	30 June 2016	Change (%) QoQ	30 September 2016	Change (%) YoY
WIG	64,289.69	61,018.36	5.4%	47,084.94	36.5%
WIG-PL	65,647.37	62,194.79	5.6%	47,828.95	37.3%
WIG-div	1,251.83	1,180.44	6.0%	962.57	30.1%
WIG20	2,453.46	2,299.80	6.7%	1,709.51	43.5%
WIG20TR	4,235.50	3,925.88	7.9%	2,892.87	46.4%
WIG30	2,848.87	2,663.68	7.0%	1,976.55	44.1%
mWIG40	4,988.02	4,907.43	1.6%	4,030.06	23.8%
sWIG80	15,123.47	16,069.01	(5.9%)	14,382.68	5.2%
Sector sub-indices					
WIG-Banks	7,450.51	7,261.87	2.6%	5,992.85	24.3%
WIG-Construction	3,125.87	3,470.78	(9.9%)	2,945.73	6.1%
WIG-Chemicals	16,814.67	14,778.71	13.8%	13,354.08	25.9%
WIG- Energy	3,361.72	3,037.52	10.7%	2,396.24	40.3%
WIG- Mining	4,596.66	4,106.07	11.9%	2,816.67	63.2%
WIG-IT	2,095.18	2,287.84	(8.4%)	2,032.44	3.1%
WIG-Media	4,887.60	5,126.77	(4.7%)	4,536.28	7.7%
WIG- Developers	2,163.10	2,130.39	1.5%	1,726.57	25.3%
WIG- Oil & Gas	7,996.11	7,128.31	12.2%	4,500.15	77.7%
WIG- Food	3,904.56	4,473.78	(12.7%)	3,851.51	1.4%
WIG-Telecom	745.25	713.4	4.5%	793.04	(6.0%)

Source: WSE, DMBH;

**The name of the stock indices has changed from WIG-Surowce to WIG-Górnictwo and WIG-Deweloperzy to WIG-Nieruchomości.*

Equity and bond trading value and derivatives trading volumes on WSE in the third quarter of 2017

	Q3 2017	Q2 2017	Change (%) QoQ	Q3 2016	Change (%) YoY
Shares (PLN million)*	118,134	121,664	(2.9%)	108,769	8.6%
Bonds (PLN million)	667	726	(8.1%)	756	(11.8%)
Futures (in thousand contracts)	3,209	3,798	(15.5%)	3,553	(9.7%)
Options (in thousand contracts)	132	154	(14.3%)	180	(26.7%)

**excluding calls*
Source: WSE, DMBH

In the third quarter of 2017 the total equity and allotment certificate turnover value exceeded PLN 118.1 billion (session and block trades) and was slightly lower (by 2.9%) qoq. The activity of investors in this segment increased by 8.6% YoY.

Turnover in the debt instrument market amounted to PLN 667 million, i.e. less that in the second quarter of 2017 and in the third quarter of 2016 – by 8.1% and 11.8%, respectively.

In the past quarter, the volume of trading in forward and futures contracts stood at 3.2 million units, representing a decline of 15.5% on a quarterly and 9.7% on an annual basis.

Between July and September of 2017, the options turnover volume amounted to 132,000 units, representing a 14.3% drop quarter-on-quarter and a 26.7% drop yoy.

5 Banking sector

According to the National Bank of Poland, at the end of the third quarter of 2017, the volume of loans granted to businesses came close to PLN 327 billion (a change by +5.6% yoy). The higher volumes were applied to the portfolio with longer than one year maturity, with the highest momentum recorded for loans granted for one to five years (+14.3% yoy). Loans with the longest maturity (over 5 years) increased by +6.9% yoy, while loans with maturity up to one year saw a decrease in volume by -3.1% yoy.

In terms of generic structure, the highest increase in lending was reported for investment loans (+11.9% yoy). The value of real estate loans and authorized overdrafts, on the other hand, increased at much lower rates (+2.3% and +2.0% yoy, respectively).

The quality of the corporate loans portfolio at the end of September 2017, measured by the NPL ratio, improved by -1.0 pp (down to 8.3%) thanks to the improved quality of loans granted to large enterprises (-1.0 pp yoy to 6.2%) as well as those granted to small and medium-sized enterprises (down by -1.1 pp yoy to 10.0%). The improved quality of business portfolios is explained by both a stable economic situation which translates into better business conditions and a low level of interest rates.

The balance of household loans at the end of September 2017 reached almost PLN 663 billion (+3.5% yoy). There was a significant increase in the volume of consumer loans (+5.6% yoy). They are the main focus of the banking sector due to their high profitability at record low interest rates. In the category of real estate loans, a significantly lower growth rate was recorded at +2.9% yoy, reflecting a decrease in the volume of loans denominated in foreign currencies (-11.5% yoy) caused, among other things, by the strong zloty appreciation in the last 12 months. The total value of foreign currency mortgage loans fell below PLN 142 billion. Loans denominated in zlotys generated a significant increase of +12.6% yoy to the level of PLN 267 billion.

The quality of loans granted to households has not experienced major changes over the past year. The NPL ratio for this segment was 6.2% at the end of September, -0.1 pp less than a year earlier. In the area of consumer loans, there was a noticeable improvement (-0.6 pp yoy to 11.7%), but their still relatively small volume compared to secured loans made the quality of the whole portfolio change only slightly. Low interest rates continue to make it easier for borrowers to pay their debts, but at the same time, a large proportion of banks choose to sell some of their impaired loans.

Corporate deposits increased by +2.6% yoy, and their balance at the end of the third quarter of 2017 was at almost PLN 253 billion. Due to low interest rates, the deposit base increased only in the area of current deposits, which grew by +8.4% yoy, while the volume of term deposits decreased by -5.9% yoy.

In the case of household deposits, the balance increased by +5.4% yoy to the level of nearly PLN 725 billion. The main growth engine, as in household deposits, were current deposits whose volume at the end of September 2016 grew by +14.2% compared to the previous year. Similar to the corporate segment, the balance of term deposits decreased by -5.3% yoy. This led to an increase in the share of current deposits in total deposits to 59.3% (+4.6 pp yoy).

The net profit of the banking sector after the first nine months of 2017 (January-September) fell significantly compared to the corresponding period of 2016 (-7.1% yoy) and reached PLN 10.6 billion. The net interest income (+10.9% yoy), as well as fee and commission income (+8.8% yoy) were better than last year. As a result, total revenues of the banking sector increased slightly by +0.8% and reached PLN 47.3 billion. The relatively small growth was the result of additional revenue streams in 2016, particularly the sale of Visa Europe to Visa Inc., which increased banks' revenues by more than PLN 2 billion. Among the factors that negatively impacted the banking sector's performance is the increase in total costs (+3.2% yoy), which was due to the banking tax (in 2016, it was only applied as of February). This year, by the end of September, the financial institutions subject to that tax paid more than PLN 3.2 billion to the state budget. The negative impact on the sector's performance came also from asset impairment losses which grew by +1.7% yoy to PLN 6.4 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 2017 total assets stood at PLN 44.2 billion, down by PLN 982 million (or 2.2%) compared to the end of 2016. The change in total assets was predominantly due to the following events:

- decrease in financial assets held for trading by PLN 1.5 billion, or 38.9%, primarily due to a reduced value of the Treasury bonds portfolio;
- decrease in the balance of debt securities available-for-sale by PLN 0.6 billion, or 3.2%, primarily as a result of the decreased position in NBP monetary bills.

The above decreases were partially off-set by an increase in net amounts due from customers by PLN 1.0 billion, or 5.5%, which constitute the largest share in the structure of the Group's assets. Their share in total assets increased to 45.0% compared to 41.7% as of the end of December 2016, primarily due to increased lending to non-financial sector customers (PLN 0.9 billion, or 5.3%). Amounts due from non-financial sector entities increased both on the institutional clients side (PLN 0.6 billion, or 5.8%; both global and corporate customers segments), and the retail customers side (PLN 0.3 billion, or 4.4%, due to higher balances on credit cards and mortgages).

Net amounts due from customers

PLN '000	30.09.2017	31.12.2016	Change	
			PLN '000	%
Amounts due from financial sector entities, including:	**1,825,338**	**1,690,254**	**135,084**	**8.0%**
Receivables related to reverse repo transactions	-	-	-	-
Amounts due from non-financial sector entities, including:	**18,073,320**	**17,169,799**	**903,521**	**5.3%**
Institutional clients*	11,378,604	10,757,372	621,232	5.8%
Individual clients, including:	6,694,716	6,412,427	282,289	4.4%
unsecured receivables	5,282,531	5,096,265	186,266	3.7%
mortgage loans	1,412,185	1,316,162	96,023	7.3%
Total net receivables from customers	**19,898,658**	**18,860,053**	**1,038,605**	**5.5%**

**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	30.09.2017	31.12.2016	Change	
			PLN '000	%
Without recognized impairment, including:	19,832,588	18,790,328	1,042,260	5.5%
non-financial sector entities	18,005,179	17,099,400	905,779	5.3%
institutional clients*	11,336,201	10,719,577	616,624	5.8%
individual clients	6,668,978	6,379,823	289,155	4.5%
With recognized impairment, including:	597,209	564,597	32,612	5.8%
non-financial sector entities	580,073	547,461	32,612	6.0%
institutional clients*	232,685	230,075	2,610	1.1%
individual clients	347,388	317,386	30,002	9.5%
Dues related to matured derivative transactions	62,878	68,549	(5,671)	(8.3%)
Total gross receivables from customers, including:	**20,492,675**	**19,423,474**	**1,069,201**	**5.5%**
non-financial sector entities	18,585,252	17,646,861	938,391	5.3%
institutional clients*	11,568,886	10,949,652	619,234	5.7%
individual clients	7,016,366	6,697,209	319,157	4.8%
Impairment, including:	**(594,017)**	**(563,421)**	**(30,596)**	**5.4%**
dues related to matured derivative transactions	(55,515)	(60,057)	4,542	(7.6%)
Total net receivables from customers	**19,898,658**	**18,860,053**	**1,038,605**	**5.5%**
Impairment coverage ratio with recognized impairment**	**90.2%**	**89.2%**		
institutional clients*	84.9%	87.3%		
individual clients	92.6%	89.7%		
Non-performing loans ratio (NPL)	**2.9%**	**2.9%**		

**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 2017 amounts due to customers constituted the dominant source of financing of the activities of the Group and amounted to 73.1% of the Group's liabilities and own funds. Total amounts due to customers as of the end of September 2017 amounted to PLN 32.3 billion, down by PLN 1.6 billion (or 4.8%) compared to the end of 2016, mainly due to the high level of current account balances of institutional clients, including public sector entities, as of the end of 2016.

As of the end of the third quarter of 2017 amounts due to banks amounted to PLN 2.6 billion, which represented 5.8% of the Group's liabilities and own funds. As compared to the end of 2016 amounts due to banks increased by PLN 0.3 billion (or 11.7%), inter alia, due to the increased overnight deposit balances.

Amounts due to customers

PLN '000	30.09.2017	31.12.2016	Change	
			PLN '000	%
Current accounts, including:	**21,927,156**	**22,973,094**	**(1,045,938)**	**(4.6%)**
financial sector entities	662,330	671,625	(9,295)	(1.4%)
non- financial sector entities, including:	21,264,826	22,301,469	(1,036,643)	(4.6%)
institutional clients*, including:	12,630,745	14,021,387	(1,390,642)	(9.9%)
budgetary units	2,563,273	3,126,039	(562,766)	(18.0%)
individual clients	8,634,081	8,280,082	353,999	4.3%
Term deposits, including:	**10,238,854**	**10,845,913**	**(607,059)**	**(5.6%)**
financial sector entities	3,770,495	4,024,501	(254,006)	(6.3%)
non-financial sector entities, including:	6,468,359	6,821,412	(353,053)	(5.2%)
institutional clients*, including:	4,685,542	5,152,519	(466,977)	(9.1%)
budgetary units	611,467	110,660	500,807	452.6%
individual customers	1,782,817	1,668,893	113,924	6.8%
Total customers deposits	**32,166,010**	**33,819,007**	**(1,652,997)**	**(4.9%)**
Other amounts due to customers	**157,822**	**117,504**	**40,318**	**34.3%**
Total amounts due to customers	**32,323,832**	**33,936,511**	**(1,612,679)**	**(4.8%)**

* 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 2017 the Group delivered a consolidated net profit of PLN 171.6 million, up by PLN 26.6 million (or 18.4%) compared to the third quarter of 2016. At the same time the Group's revenue increased by PLN 18.9 million (or 3.7%) to PLN 530.5 million.

The main determinants of the Group's operating result in the third quarter of 2017 when compared to the third quarter of 2016 were the following:

- net interest income of PLN 273.5 million versus PLN 247.3 million in in the third quarter of 2016 – up by PLN 26.1 million (or 10.6%). Net interest income in third quarter of 2017 increased by PLN 51.1 million (or 16.9%) compared to the corresponding period of 2016 and amounted to PLN 352.8 million. Excluding net income from derivative instruments in hedge accounting, comparable net interest income in the third quarter of 2017 increased by PLN 31.0 million (or 10.3%) yoy. Interest income from amounts due from customers constituting the main source of net interest income reached the level of PLN 231.9 million, up by PLN 17.7 million (or 8.3%) compared to the third quarter of 2016. This was mainly due to the increase in the average volume of unsecured receivables from individual customers and the positive impact of the credit margin from institutional clients along with their growing credit volumes. At the same time interest income from debt securities available-for-sale increased by PLN 10.0 million (or 13.5%) due to higher volumes and higher bond yields. Simultaneously, interest expenses in the third quarter of 2017 increased by PLN 24.9 million (or 45.8%) compared to the corresponding period of 2016. Excluding interest expenses on derivative instruments in hedge accounting, comparable interest expenses in the third quarter of 2017 increased by PLN 5.9 million (or 12.4%) yoy primarily due to higher interest expenses on amounts due to banks by PLN 5.8 million (or 100.4%). On the other hand, interest from amounts due to (both financial and non-financial sector) customers constituting the main source of interest expenses remained almost flat compared to the corresponding period of the previous year;

Net interest income

PLN '000	01.07 - 30.09.2017	01.07 - 30.09.2016	Change	
			PLN '000	%
Interest and similar income from:				
Balances with the Central Bank	4,414	4,548	(134)	(2.9%)
Amounts due from banks	5,138	5,045	93	1.8%
Amounts due from customers, in respect of:	231,928	214,240	17,688	8.3%
financial sector	12,560	9,989	2,571	25.7%
non-financial sector, including:	219,368	204,251	15,117	7.4%
credit cards	71,263	69,901	1,362	1.9%
Debt securities available-for-sale	84,421	74,378	10,043	13.5%
Debt securities held-for-trading	4,984	3,516	1,468	41.8%
Liabilities with negative interest rate	1,799	-	1,799	-
Derivative instruments in hedge accounting	20,096	-	20,096	-
	352,780	**301,727**	**51,053**	**16.9%**
Interest expense and similar charges on:				
Amounts due to banks	(11,477)	(5,727)	(5,750)	100.4%
Amounts due to financial sector entities	(14,596)	(12,647)	(1,949)	15.4%
Amounts due to non-financial sector entities	(27,428)	(29,442)	2,014	(6.8%)
Loans and advances received	(121)	(234)	113	(48.3%)
Assets with negative interest rate	(400)	-	(400)	-
Derivative instruments in hedge accounting	(25,300)	(6,357)	(18,943)	298.0%
	(79,322)	**(54,407)**	**(24,915)**	**45.8%**
Net interest income	**273,458**	**247,320**	**26,138**	**10.6%**

- net fee and commission income of PLN 146.2 million compared to PLN 144.5 million in the third quarter of 2016 – up by PLN 1.7 million (or 1.2%) was primarily the result of higher fee and commission income on payment and credit cards in connection with the increased number of card transactions. At the same time, fee and commission income on custody services and other fees and commissions grew. On the other hand, fee and commission income on brokerage activity dropped mainly due to a decreased capital market transaction compared to the third quarter of 2016;

Net fee and commission income

PLN '000	01.07 - 30.09.2017	01.07 - 30.09.2016	Change PLN '000	Change %
Fee and commission income				
Insurance and investment products distribution	17,234	20,488	(3,254)	(15.9%)
Payment and credit cards	43,004	40,288	2,716	6.7%
Payment orders	26,569	26,614	(45)	(0.2%)
Custody services	28,865	26,006	2,859	11.0%
Cash loans fees	54	216	(162)	(75.0%)
Brokerage activity	9,913	16,559	(6,646)	(40.1%)
Clients' cash on account management services	5,959	6,373	(414)	(6.5%)
Guarantees granted	5,005	4,508	497	11.0%
Financial liabilities granted	1,645	1,583	62	3.9%
Other	26,681	22,889	3,792	16.6%
	164,929	**165,524**	**(595)**	**(0.4%)**
Fee and commission expense				
Payment and credit cards	(5,984)	(8,516)	2,532	(29.7%)
Brokerage activity	(3,310)	(3,324)	14	(0.4%)
Fees paid to the National Depository for Securities (KDPW)	(4,785)	(4,499)	(286)	6.4%
Brokerage fees	(1,104)	(976)	(128)	13.1%
Other	(3,549)	(3,706)	157	(4.2%)
	(18,732)	**(21,021)**	**2,289**	**(10.9%)**
Net fee and commission income				
Insurance and investment products distribution	17,234	20,488	(3,254)	(15.9%)
Payment and credit cards	37,020	31,772	5,248	16.5%
Payment orders	26,569	26,614	(45)	(0.2%)
Custody services	28,865	26,006	2,859	11.0%
Cash loans fees	54	216	(162)	(75.0%)
Brokerage activity	6,603	13,235	(6,632)	(50.1%)
Clients' cash on account management services	5,959	6,373	(414)	(6.5%)
Guarantees granted	5,005	4,508	497	11.0%
Financial liabilities granted	1,645	1,583	62	3.9%
Fees paid to the National Depository for Securities (KDPW)	(4,785)	(4,499)	(286)	6.4%
Brokerage fees	(1,104)	(976)	(128)	13.1%
Other	23,132	19,183	3,949	20.6%
Net fee and commission income	**146,197**	**144,503**	**1,694**	**1.2%**

- net income on trading financial instruments and revaluation of PLN 93.5 million in the third quarter of 2017, remained flat compared to the corresponding period of the previous year and net income on debt investment securities in the amount of PLN 12.9 million versus PLN 21.7 million in the third quarter of 2016, down by PLN 8.7 million;
- operating expenses and overheads including depreciation expenses of PLN 278.8 million versus PLN 287.9 million in the corresponding period of the previous year – down by PLN 9.0 million (or 3.1%) due to lower staff expenses by PLN 6.8 million mainly as a result of lower bonuses and rewards. At the same time general administrative expenses decreased by PLN 3.6 million mainly due to lower Bank Guarantee Funds costs due to a change in the methodology of making contributions to the BFG starting from 2017. In the third quarter of 2017 the Bank paid a deposit guarantee fund fee (payable quarterly) in the amount of PLN 2.6 million, while in the third quarter of 2016 the obligatory and prudential fees (both payable quarterly) amounted to PLN 17.4 million. On the other hand, the costs of advertising and marketing increased by PLN 4.3 million yoy as a result of promotions aimed at building Citi Handlowy brand awareness and the costs of depreciation of fixed and intangible assets increased by PLN 1.4 million yoy in connection with the implementation of IT projects;

General administrative expenses and depreciation expense

PLN '000	01.07 - 30.09.2017	01.07 - 30.09.2016	Change	
			PLN '000	%
Staff expenses	**(127,318)**	**(134,132)**	**6,814**	**(5.1%)**
Remuneration costs	(94,541)	(93,961)	(580)	0.6%
Bonuses and rewards	(19,279)	(26,052)	6,773	(26.0%)
Social security costs	(13,498)	(14,119)	621	(4.4%)
Administrative expenses	**(132,948)**	**(136,527)**	**3,579**	**(2.6%)**
Telecommunication fees and hardware purchase costs	(48,224)	(47,831)	(393)	0.8%
Costs of external services, including advisory, audit, consulting services	(14,375)	(14,158)	(217)	1.5%
Building maintenance and rent costs	(15,966)	(18,602)	2,636	(14.2%)
Marketing costs	(9,559)	(5,248)	(4,311)	82.1%
Costs of cash management services, costs of cleaning services and other transaction costs	(10,659)	(9,804)	(855)	8.7%
Costs of external services related to distribution of banking products	(9,567)	(4,844)	(4,723)	97.5%
Postal services, office supplies and printmaking costs	(1,840)	(2,078)	238	(11.5%)
Training and education costs	(327)	(413)	86	(20.8%)
Banking and capital supervision costs	(69)	1,806	(1,875)	(103.8%)
Bank Guarantee Funds costs	(2,613)	(17,415)	14,802	(85.0%)
Other expenses	(19,749)	(17,940)	(1,809)	10.1%
Depreciation and amortization	**(18,566)**	**(17,197)**	**(1,369)**	**8.0%**
General administrative expenses and depreciation expense, total	**(278,832)**	**(287,856)**	**9,024**	**(3.1%)**

- Net impairment due to financial assets and provisions for granted financial liabilities and guarantees of PLN -22.0 million compared to PLN -18.1 million in the third quarter of 2016. The Institutional Banking segment took write-offs of PLN -7.6 million net compared to the net release of PLN 0.3 million in the third quarter of 2016, mainly due to a higher default risk in the SME segment for individually assessed loans. On the other hand, the Consumer Banking segment took write-offs of PLN -14.4 million compared to PLN -18.4 million in the third quarter of 2016. The decrease in net write-offs by PLN 4.0 million stems primarily from lower IBNR provisions in the third quarter of 2017;

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

PLN '000	01.07 - 30.09.2017	01.07 - 30.09.2016	Change	
			PLN '000	%
Impairment allowances for financial assets				
Amounts due from banks	(206)	(804)	598	(74.4%)
Amounts due from customers	(47,674)	(52,699)	5,025	(9.5%)
Receivables from matured derivative transactions	(3)	(46)	43	(93.5%)
	(47,883)	**(53,549)**	**5,666**	**(10.6%)**
Reversals of impairment allowances for financial assets				
Amounts due from banks	105	954	(849)	(89.0%)
Amounts due from customers	24,090	34,375	(10,285)	(29.9%)
Receivables from matured derivative transactions	46	74	(28)	(37.8%)
Recoveries from sold debts	52	1,278	(1,226)	(95.9%)
Other	1,312	1,683	(371)	(22.0%)
	25,605	**38,364**	**(12,759)**	**(33.3%)**
Net impairment allowances financial assets	**(22,278)**	**(15,185)**	**(7,093)**	**46.7%**
Created provisions for granted financial and guarantee commitments	(3,039)	(6,195)	3,156	(50.9%)
Releases of provisions for granted financial and guarantee commitments	3,269	3,297	(28)	(0.8%)
Net impairment allowances provisions for granted financial and guarantee commitments	**230**	**(2,898)**	**3,128**	**(107.9%)**
Net impairment allowances financial assets and provisions for granted financial liabilities and guarantees	**(22,048)**	**(18,083)**	**(3,965)**	**21.9%**

- Net gain on sale of other assets increased by PLN 10.5 million in the third quarter of 2017 in connection with the sale of the right of perpetual usufruct of real estate;
- The total charge to the income statement of the Group due to the tax on certain financial institutions in the third quarter of 2017 amounted to PLN 19.3 million compared to PLN 18.8 million in the third quarter of 2016.

3. Financial Ratios

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

Total financial ratios	Q3 2017	Q3 2016
ROE *	8.0%	9.4%
ROA**	1.1%	1.3%
Cost/Income	53%	56%
Loans to non-financial sector/Deposits from non-financial sector	65%	66%
Loans to non-financial sector/Total assets	41%	40%
Net interest income/Revenue	52%	48%
Net fee and commission income/Revenue	28%	28%

**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 – 30.09.2017	01.01 – 30.09.2016	Change	
			FTEs	%
Average employment in the third quarter	3,575	3,739	(164)	(4.4%)
Average employment in the period	3,584	3,826	(242)	(6.3%)
Employment at the end of quarter	3,501	3,680	(179)	(4.9%)

**does not include employees on parental and unpaid leave*

Total capital adequacy ratio*

PLN '000		30.09.2017	30.09.2016
I	**Tier I capital**	**4,907,526**	**4,796,869**
II	**Total capital requirements, including:**	2,263,091	2,199,922
	credit risk capital requirements	1,765,819	1,687,217
	counterparty risk capital requirements	57,270	65,908
	Credit valuation adjustment capital requirements	47,346	63,927
	capital requirements for excess of exposures' concentration limit and large exposures' limit	6,671	1,792
	total market risk capital requirements	97,473	74,357
	operational risk capital requirements	288,512	306,721
	Tier I capital ratio	**17.3%**	**17.4%**

**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, 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

For the period	01.01. – 30.09.2017			01.01. – 30.09.2016		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	358,912	432,895	791,807	325,257	421,784	747,041
Internal interest income, including:	(20,361)	20,361	-	(29,011)	29,011	-
Internal income	-	20,361	20,361	-	29,011	29,011
Internal expenses	(20,361)	-	(20,361)	(29,011)	-	(29,011)
Net fee and commission income	214,585	221,278	435,863	207,214	219,042	426,256
Dividend income	1,477	7,720	9,197	1,325	6,513	7,838
Net income on financial instruments and revaluation	223,648	22,808	246,456	214,717	23,646	238,363
Net gain on debt investment securities available-for-sale	28,803	-	28,803	42,601	-	42,601
Net gain on equity investment instruments available-for-sale	3,377	-	3,377	28,964	66,477	95,441
Net gain/(loss) on hedge accounting	6,445	-	6,445	8,024	-	8,024
Net other operating income	15,440	(15,394)	46	20,184	(5,369)	14,815
General administrative expenses	(379,169)	(478,539)	(857,708)	(371,204)	(477,849)	(849,053)
Depreciation and amortization	(14,793)	(39,252)	(54,045)	(16,072)	(37,019)	(53,091)
Profit on sale of other assets	10,519	25	10,544	95	-	95
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(19,370)	(45,384)	(64,754)	17,477	(50,052)	(32,575)
Operating income	**449,874**	**106,157**	**556,031**	**478,582**	**167,173**	**645,755**
Share in net profits of entities valued at equity method	271	-	271	85	-	85
Tax on certain financial institutions	(43,132)	(16,246)	(59,378)	(36,415)	(13,928)	(50,343)
Profit before tax	**407,013**	**89,911**	**496,924**	**442,252**	**153,245**	**595,497**
Income tax expense			(124,719)			(124,231)
Net profit			372,205			471,266

State as at	30.09.2017			31.12.2016		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Total assets	**37,208,308**	**7,020,021**	**44,228,329**	**38,493,344**	**6,716,572**	**45,209,916**
Total liabilities and shareholders' equity, including:	**31,362,852**	**12,865,477**	**44,228,329**	**32,836,784**	**12,373,132**	**45,209,916**
Liabilities	26,101,537	11,420,470	37,522,007	27,443,762	10,975,704	38,419,466

8 Activities of the Group

1. Institutional Banking

1.1. Summary of segment results

PLN '000	Q3 2017	Q3 2016	Change	
			PLN '000	%
Net interest income	125,623	104,339	21,284	20.4%
Net fee and commission income	67,778	74,192	(6,414)	(8.6%)
Net income on dividends	249	482	(233)	(48.3%)
Net income on trading financial instruments and revaluation	86,419	86,012	407	0.5%
Net gain on debt investment securities available-for-sale	12,942	21,676	(8,734)	(40.3%)
Net gain on equity investment instruments available-for-sale	-	1,534	(1,534)	(100.0%)
Net gain/(loss) on hedge accounting	2,891	463	2,428	524.4%
Net other operating income	4,928	6,004	(1,076)	(17.9%)
Total income	**300,830**	**294,702**	**6,128**	**2.1%**
General administrative expenses and depreciation	(112,538)	(125,074)	12,536	(10.0%)
Profit on sale of other assets	10,489	8	10,481	-
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(7,611)	342	(7,953)	-
Share in net profits of entities valued at equity method	6	7	(1)	(14.3%)
Tax on certain financial institutions	(13,783)	(13,637)	(146)	1.1%
Profit before tax	**177,393**	**156,348**	**21,045**	**13.5%**
Cost/Income	**37%**	**42%**		

The key highlights that impacted the gross profit of the Institutional Banking segment for the third quarter of 2017 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 liabilities due to growing credit volume and the positive effect of credit margin. At the same time, interest income from debt securities increased due to higher volumes and higher bond yields;
- on the other hand, fee and commission income on brokerage activity dropped mainly due to a decreased capital market transaction compared to the third quarter of 2016;
- net income on trading financial instruments and revaluation of PLN 86.4 million in the third quarter of 2017, remained flat compared to the corresponding period of the previous year and net income on debt investment securities in the amount of PLN 12.9 million versus PLN 21.7 million in the third quarter of 2016, down by PLN 8.7 million;
- a decrease in operating expenses and overheads including depreciation expenses by PLN 12.5 million as a result of lower bonuses and rewards;
- net gain on sale of other assets increased by PLN 10.5 million in the third quarter of 2017 in connection with the sale of the right of perpetual usufruct of real estate;
- an increase in net impairment write-offs by PLN 8.0 million yoy (net impairment of PLN -7.6 million in the third quarter versus a reversal of PLN 0.3 million in the third quarter 2016), mainly due to a higher default risk in the SME segment for individually assessed loans.

1.2. Institutional Bank and the Capital Markets

Institutional Bank

As regards corporate and commercial 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 the third quarter of 2017, the number of institutional clients (including strategic, global and corporate banking clients) amounted to 6,200, a decline of 4% compared to the end of the third quarter of 2016, when the number of clients reached 6,400. As part of the Commercial Bank (small and medium businesses, large enterprises and the public sector) the Bank provided services to 3,700 clients as at the end of the third quarter of 2017 (which means a decrease of 8% as compared to 4,000 clients at the end of the third quarter of 2016).

What institutional banking clients have in common is their demand for advanced financial products and advisory related to financial services. In that area, the Bank provides coordination of the investment banking, treasury and cash management products offered, and prepares loan offers 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.

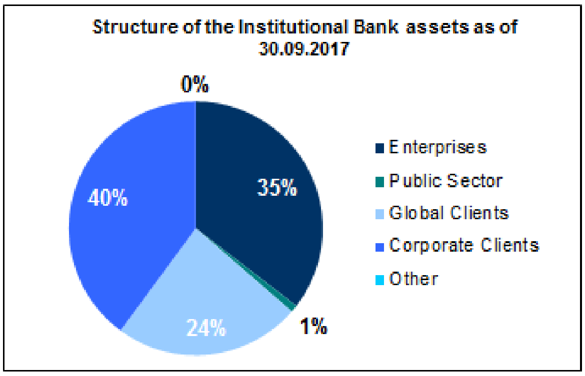
Assets*

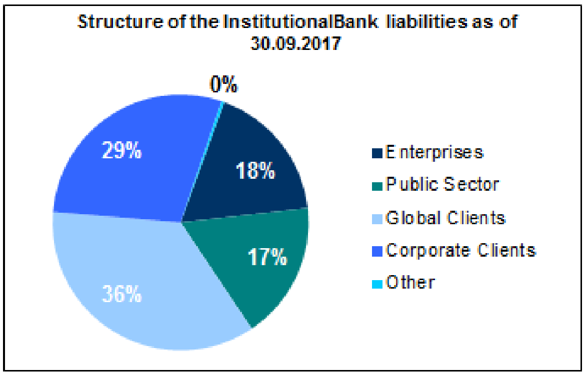
	30.09.2017	31.12.2016	30.09.2016	Change (1)/(2)		Change (1)/(3)	
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises*, including:	4,559	4,669	5,025	(110)	(2%)	(466)	(9%)
SMEs	1,790	1,873	1,936	(83)	(4%)	(146)	(8%)
MMEs	2,769	2,796	3,089	(27)	(1%)	(320)	(10%)
Public Sector	118	92	114	26	28%	4	4%
Global Clients	3,050	2,389	2,151	661	28%	899	42%
Corporate Clients	5,128	5,016	4,582	112	2%	546	12%
Other*	3	7	16	(4)	(57%)	(13)	(81%)
Total Institutional Banking	**12,858**	**12,173**	**11,888**	**685**	**6%**	**970**	**8%**

Liabilities*

	30.09.2017	31.12.2016	30.09.2016	Change (1)/(2)		Change (1)/(3)	
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises*, including:	3,678	3,876	3,526	(198)	(5%)	152	4%
SMEs	2,119	2,428	2,291	(309)	(13%)	(172)	(8%)
MMEs	1,559	1,448	1,235	111	8%	324	26%
Public Sector	3,626	3,823	2,673	(197)	(5%)	953	36%
Global Clients	7,435	9,031	7,757	(1,596)	(18%)	(322)	(4%)
Corporate Clients	6,015	6,225	6,020	(210)	(3%)	(5)	(0%)
Other**	75	86	93	(11)	(13%)	(18)	(19%)
Total Institutional Banking	**20,829**	**23,041**	**20,069**	**(2,212)**	**(10%)**	**760**	**4%**

** 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.*





Key transactions and successes of Corporate and Commercial Bank in the third quarter 2017:

- In the Strategic and Global Clients segment:
  - Providing a two-year loan of PLN 300 million for a client operating in the automotive sector. The purpose of the loan is to support the sales of new passenger vehicles and small cargo vans in the primary market for private clients;
  - Signing a consortium loan agreement with a group of co-borrowers representing a leading Polish manufacturer of ceramic tiles and bathroom fittings. The Bank acted as Organizer and Original Lender, with total exposure of ca. EUR 50 million;

  - Acceding to a PLN 1.9 billion consortium loan agreement with a power industry client from the investment portfolio of a leading Private Equity fund. The Bank is the Organizer and Original Lender, with total exposure of ca. PLN 250 million;
  - Submitting a winning bid in a tender procedure for providing EUR 30 million financing to a client under the Emerging Market Champion program in connection with one of the largest investment projects outside the client's local market. The value of the entire investment was EUR 1.2 billion;
  - Signing an agreement for an overdraft facility amounting to PLN 57 million for a group of companies with a leading position in the Polish LPG market;
  - Winning a mandate for the provision of comprehensive banking services to leading groups in the healthcare, real estate and logistics sectors;
  - Establishing cooperation with one of the largest clients in the chemical industry;

- In the Commercial Bank segment, the Bank granted, *inter alia*:
  - An overdraft facility amounting to PLN 30 million for the manufacture of metal construction products and parts;
  - A revolving line of credit for letters of credit, amounting to PLN 18 million for the manufacture of other parts and accessories for motor vehicles, with the exception of motorcycles;
  - A long-term loan for real estate financing amounting to PLN 22 million for the manufacture of grain milling products;
  - A revolving line of credit of PLN 18 million for equipment repair and maintenance – wholesale trade in fuels and petroleum products;
  - An overdraft facility amounting to PLN 15 million for wholesale trade in metal products, as well as equipment and additional fittings;
  - Management of accounts for a municipality with a budget of PLN 1.1 billion.

- New client acquisition: in the Commercial Bank, 59 new customers were acquired in the third quarter of 2017, including 7 Large Enterprises, 47 Small and Medium-sized Enterprises, and 5 Public Sector Customers. The Bank acquired 9 client relationships in the Strategic Clients and Global Clients segment.

Activity and business achievements of the Treasury Division

- According to the data as at the end of September 2017, the Bank maintained its strong position on the foreign exchange market with corporate clients for spot and forward transactions. After the first three quarters of 2017, the volume of foreign exchange transactions increased by 1% in comparison to the corresponding period of 2016, and in the third quarter of 2017 alone the Bank's volume grew by 4% compared with the result achieved in the previous quarter of 2017;

- The CitiFx Pulse platform accounts for approximately 80% of all FX transactions. We have maintained this level for several years, which reflects the great trust that customers have in our banking platform.

- CitiFX Pulse is a state-of-the-art online currency exchange platform allowing customers to execute transactions on their own 24 hours per day. The tool is both innovative and functional. It supplies market information prior to a transaction, helps to analyse currency exposures after settlement and offers a wide range of other useful add-ons.

- Considering the market of debt securities and syndicated loans, in the third quarter of 2017 the Bank participated in the following transactions:
  - Syndicated issue of PLN 750 million worth of bonds for the European Investment Bank, increasing a 5-year series to a total of PLN 4 billion;
  - Syndicated issue of PLN 500 million worth of 4-year bonds for a Treasury-owned company;
  - Involvement in syndicated issue of PLN 252 million worth of 3-year bonds for a commercial bank.

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;
- payment and receivables processing: Direct Debit and SpeedCollect;
- cash products;
- EU-oriented advisory services;
- trade finance products.

Business events and achievements of the Transactional banking area in the third quarter of 2017:

- **Electronic banking**

In the third quarter of 2017, further works were carried out in order to provide the Bank's clients with a number of new solutions in the area of electronic banking:

- to cater for clients who were looking for greater flexibility in daily documentation exchanges, an electronic document exchange platform (eWnioski) has been provided.
- the functionality of the CitiDirect EB portal was enhanced by making a new mass payment processing system available;
- the Bank consistently implemented the plan for the further commercialization of mobile solutions offered to institutional clients, including the promotion of the mobile version of its hardware token (MOBILE Pass);

Data concerning electronic banking at the end of the third quarter of 2017:

- the number of institutional clients activated under the Internet banking system CitiDirect amounted to 3,300, while in the CitiDirect EB (CitiDirect Evolution Banking) – 3,100;
- the number of institutional clients actively using the system is quite constant and remains at a high level of more than 4,000;
- the number of clients with mobile access to both electronic banking systems amounted to 3,200;
- the number of transactions processed electronically by the CitiDirect and CitiDirect EB amounted to 6.2 million;

- **Deposits and current accounts**

In the third quarter of 2017, a rise in the balances of institutional clients' accounts was observed as a result of activation of the existing and newly-attracted clients. In the third quarter of 2017, average monthly balances maintained in current accounts with the Bank grew by 23% in relation to the corresponding period of 2016; growth in the balances maintained in PLN accounts reached 31%.

- **Business Cards**

The Bank completed work on a new system for Charge Card handling. Following its implementation, clients gained access to a state-of-the-art platform featuring detailed information about the cards and related transactions, also enabling the management of the card portfolio through web-based and mobile device applications. Clients obtained a range of new opportunities, which are uncommon among solutions offered to corporate clients, such as transaction notification defining and a broad range of reporting options, etc.

- **International fund transfers**

The Bank boasts a comprehensive and very extensive settlement offering in over 130 currencies throughout the world. Integrated settlement services include a compilation of remote access channels and product offerings in the area of international settlements. Responding to client needs, the Bank has extended the functionality of its multicurrency account product, adding the ability to receive foreign payments in exotic currencies. This is a unique solution in the Polish market.

- **Cash products**

The Bank provides its clients with comprehensive cash management services. A vast majority of over-the-counter deposits are sealed, i.e., they are delivered to the Bank in sealed packages and counted without the client being present. The service may be provided nationwide at more than 1,200 cash centers. The share of cash in domestic transactions remains at a constant, very high level.

Additionally, the Bank provides open deposit services at more than 4,500 locations thanks to its partnership with Poczta Polska S.A.

Cash deposits may be made directly into the clients' accounts with the Bank. the Bank offers clients the option to make cash deposits into virtual accounts; as a result, the information necessary to identify deposits is included directly in the account number, which minimizes the risk of incorrect (unidentified) payments.

In order to meet the clients' needs, the Bank has introduced a solution designed to optimize the activities related to the preparation of sealed deposits, accessing the status of the sealed deposits made and the reporting of expected funds.

In addition to deposits, the Bank's clients also use 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 offerings include cash withdrawals commissioned using the Bank's electronic banking system and effected at all branches of Poczta Polska S.A. nationwide as well as money orders, which are a convenient method of delivering cash directly to the recipient.

- **Direct debit**

The Bank strengthened its position as leader with respect to the direct debit service and processed the biggest number of direct debits as the creditor's bank another year in a row. In line with its strategy, the Bank continues to digitize direct debit order handling by processing 74% of all approvals in digital form in the first half of the year.

- **SpeedCollect**

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of bulk payments. The virtual account functionality allows the creditor's important information to be encoded in the account number such as e.g. the number of the counterparty or the number of its own commercial unit that accounts for the revenue. An extension of the functionality of virtual accounts is SpeedCollect Plus, a service that allows not only to automatically identify and report the amounts credited to the account, but also to reconcile these transactions with additional information provided by the creditor, providing comprehensive information about the settlements. The volume of transactions remains equally high as in the same period of 2016.

- **EU-oriented advisory services**

In the third quarter of 2017, the Bank participated in certain measures related to the EU Financial Perspective 2014-2020 where banks are important partners in the distribution of European funds and in the financing of investments co-financed with subsidies and repayable assistance instruments. Those measures included primarily the participation in the work of thematic working groups of the Polish Bank Association and cooperation with, among others, the Polish Agency for Enterprise Development and Bank Gospodarstwa Krajowego, which executed tasks concerning the implementation of grant instruments within the framework of the Smart Growth Operational Program in order to finance innovative projects by small and medium-sized enterprises (SMEs).

- **Trade finance products**

In the third quarter of 2017 the Trade Finance Department maintained its relatively high level of assets, just as it did in the first two quarters of 2017. The average level of assets in the third quarter of 2017 was 20% higher than in the same period last year.

In July 2017 the Bank launched a Supplier Financing Scheme for another client of the Strategic Client Department. The Bank has maintained its very strong position as regards Supply Chain Financing products and continuously achieves a high growth dynamic in terms of Trade Financing product volume (guarantees and letters of credit).

The Trade Financing Department consistently pursues its goals related to process and operating service digitization. Almost 90% of transactions are handled through the Citi Trade Portal.

Custody services

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

As at 29 September 2017, the Bank maintained 9,000 securities accounts and collective accounts.

At the same time, the Bank served as depositary for four open-end pension funds (OFE): Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE and Nordea OFE; three voluntary pension funds: Nationale-Nederlanden DFE, DFE Pekao and Generali DFE, and also for the PFE Orange Polska occupational pension fund.

The Bank was also the depositary for investment funds managed by the following Fund Management Companies (TFI): BZ WBK TFI S.A., PKO TFI S.A., ESALIENS TFI S.A., Aviva Investors Poland TFI S.A. and Templeton Asset Management (Poland) TFI S.A.

Brokerage activities

The Group pursues brokerage activity on the capital market via the Dom Maklerski Banku Handlowego S.A. ("DMBH") brokerage house, which is wholly owned by the Bank.

The performance of DMBH is largely determined by the activity of institutional investors who, in turn, are directly dependent on new capital inflows and on the situation on the domestic stock market. Less activity in this segment is due to a lack of detailed information concerning the open-end pension fund model which will result from the introduction of the planned changes to the pension system. Moreover, activity in this client segment is significantly limited due to no influx of new resources into funds with exposure to the domestic stock market.

In the third quarter of 2017, DMBH brokered session transactions representing 8.6% of equity turnover in the secondary market. The value of session transactions executed via DMBH in the equity market on the Warsaw Stock Exchange (WSE) amounted to PLN 9.16 billion and declined by 27.9% in relation to the previous quarter and by 19.2% in relation to the corresponding period of the preceding year, while session trading on the WSE decreased by 8.6% as compared to the previous quarter and increased by 9.1% as compared to the corresponding period of the preceding year. WSE trading structure significantly changed in 2017, which distorts attempted comparisons with the previous year. The change mainly results from the operations of foreign brokers, who increased their trading scale on the WSE in 2017 by executing algorithmic and high volume trading operations. DMBH is no longer involved in this market segment. Its attractiveness in terms of profitability is poor, while at the same time it requires substantial equity, which has translated into limited involvement of domestic traders in this area.

At the end of September 2017, DMBH was the Market Maker for the shares of 64 companies listed on the Warsaw Stock Exchange (including all covered by the WIG20 blue chip index). That represented 13.4% of all shares traded on the WSE main market.

In the DMBH consumer segment, the strategy of intensifying their cooperation with the Bank was pursued further in 2017. DMBH maintained 13,700 investment accounts at the end of the third quarter of 2017, an increase of 15.5% compared to the corresponding period of 2016 and of 2% compared to the end of the previous quarter. The number of accounts increased primarily due to a steady growth in the number of brokerage service agreements concerning foreign market services performed via the CitiFX Stocks platform.

The third quarter of 2017 also saw increased activity by consumers as regards trading in shares and ETF instruments listed on major foreign exchanges. Owing to advisory services, which are increasingly popular among Citi Private Clients (CPCs), revenues from fees in foreign markets supplemented the traditional revenue stream from client activity on the Warsaw Stock Exchange to a significant extent.

Once again, subscriptions for closed-end investment fund certificates and Treasury and corporate bond sales contributed to maintaining record-high results in that segment for DMBH.

In the third quarter of 2017, DMBH closed the following deal on the capital market:

- CCC S.A. – DMBH acted as the Global Coordinator and Offeror in the procedure of accelerated sale of newly issued common shares of CCC S.A.; the value of the transaction amounted to PLN 530 million (September 2017).

Summary Income Statement and Balance Sheet

Company's Name	Headquarter	% of authorized capital held by the Bank	Total assets 30.09.2017	Total equity 30.09.2017	Net financial result for the period of 01.01-30.09.2017
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	1,124,039	110,025	12,453

Leasing activities

In the fourth quarter 2016, a decision was made on the purchase by the Bank of the remaining working lease portfolio from Handlowy Leasing Sp. z o.o. The transaction was executed at the end of the first quarter 2017.

Leasing products continue to be offered by the Bank's Group and are made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group. .

Summary Income Statement and Balance Sheet

Company's Name	Headquarters	% of authorized capital held by the Bank	Total assets 30.09.2017	Total equity 30.09.2017	Net financial result for the period of 01.01–30.09.2017
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	23,367	22,696	(412)

2. Consumer Banking

2.1. Summary of the segmental results

PLN '000	Q3 2017	Q3 2016	Change	
			PLN '000	%
Net interest income	147,835	142,981	4,854	3.4%
Net fee and commission income	78,419	70,311	8,108	11.5%
Dividend income	-	22	(22)	(100.0%)
Net income on trading financial instruments and revaluation	7,106	7,115	(9)	(0.1%)
Net other operating income	(3,709)	(3,508)	(201)	5.7%
Total income	**229,651**	**216,921**	**12,730**	**5.9%**
General administrative expenses and depreciation	(166,294)	(162,782)	(3,512)	2.2%
Profit on sale of other assets	25	-	25	-
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	(14,437)	(18,425)	3,988	(21.6%)

PLN '000	Q3 2017	Q3 2016	Change	
			PLN '000	%
Tax on certain financial institutions	(5,484)	(5,194)	(290)	5.6%
Profit before tax	**43,461**	**30,520**	**12,941**	**42.4%**
Cost/Income	**72%**	**75%**		

The key highlights that impacted the gross profit of the Consumer Banking Segment in third quarter 2017 when compared to the corresponding period of 2016 were as follows:

- an increase in interest income as a result of the credit portfolio growth (+5% yoy) and a decrease in interest expenses, which was achieved despite the substantial increase in the deposit balances (+13% yoy) as a result of a favorable change in the structure of the deposit portfolio;
- an increase in net fee and commission income due to structured investment products and credit as well as debit cards;
- an increase in operating expenses as a result of higher expenses in marketing and technology, partially compensated by savings thanks to costs base optimization initiatives;
- a decrease in net impairment write-offs by PLN 4.0 million yoy (net impairment of PLN -14.4 million in the third quarter versus net impairment of PLN -18.4 million in the third quarter 2016), due to primarily from lower IBNR provisions in the third quarter of 2017.

2.2. Selected business data

PLN '000	Q3 2017	Q2 2017	Q3 2016	Change QoQ	Change YoY
Number of individual customers	688.3	687.2	681.1	1.1	7.2
Number of current accounts, including:	461.4	459.9	458.2	1.6	3.2
number of operating accounts*	97.7	97.7	93.5	-	4.2
Number of saving accounts	145.4	146.7	151.6	(1.3)	(6.2)
Number of credit cards	701.8	702.4	699.0	(0.6)	2.8
Number of debit cards	249.5	248.9	252.2	0.6	(2.7)

**In the first quarter of 2017, there was a change in the classification of operating accounts. Previous quarters were adjusted.*

Net receivables from individual clients – management view

PLN '000	30.09.2017 (1)	31.12.2016 (2)	30.09.2016 (3)	Change (1)/(2)		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	5,282,531	5,096,265	5,043,357	186,266	3.7%	239,174	4.7%
Credit cards	2,505,181	2,345,649	2,281,718	159,532	6.8%	223,463	9.8%
Cash loans	2,728,099	2,692,429	2,699,672	35,670	1.3%	28,427	1.1%
Other unsecured receivables	49,251	58,187	61,967	(8,936)	(15.4%)	(12,716)	(20.5%)
Mortgage loans	1,412,185	1,316,162	1,308,786	96,023	7.3%	103,399	7.9%
Net client receivables	**6,694,716**	**6,412,427**	**6,352,143**	**282,289**	**4.4%**	**342,573**	**5.4%**

2.3. Key Business Highlights

Bank accounts

- **Current accounts**

At the end of the third quarter of 2017, the number of personal current accounts stood at 461,000 (as against 458,000 at the end of the third quarter of 2016), of which 264,000 in Polish zlotys and 197,000 in foreign currencies. The total balance of current accounts amounted to over PLN 5.7 billion at end the third quarter of 2017, a growth of 16% on the corresponding period of the previous year. The increase in the balance has been the result of the Bank's strategy consisting of acquiring clients with medium and high incomes and strengthening relationships with existing clients.

- **Savings accounts**

The number of savings accounts at the end of the third quarter of 2017 was 145,000. The total savings account balance was PLN 2.8 billion, compared to 151,000 savings accounts with the total balance of PLN 3.0 billion in the corresponding period of the preceding year.

- **Changes in the offering**

As regards private clients, the Bank has continued to reward holders of new Citi Priority, Citigold and Citigold Private Client accounts by:

- promotional time deposit (Citi Priority) and "cash back" interest rates;
- cash back and gift cards to be used at shopping malls for new Citigold and Citigold Private Client clients;
- Citi Priority, Citigold and Citi Private Client recommendation program.

In the micro-enterprise client area, August 2017 saw the revised Table of Fees and Charges take effect. Its main changes include:

- debit card fees and fees for transactions executed using the CitiPhone service or at Bank Branches were increased for clients holding the City Priority package;
- fees for domestic cash machine withdrawals were modified; a percentage value of 1% was introduced and a minimum fee of PLN 3 was maintained;
- a new fee for auxiliary accounts in foreign currencies was introduced.

Credit cards

At the end of the third quarter of 2017 the number of credit cards was 701,800. The cards portfolio grew by ca. 2,800 cards as compared to the third quarter of 2016.

The debt balance on credit cards as at the end of the third quarter of 2017 amounted to PLN 2.5 billion, i.e. was 10% higher in relation to the corresponding period of the previous year. As a result, the Bank consolidated its leading position in the credit card market in terms of the value of credit facilities extended in the form of credit cards, holding a market share of 25.7% according to the figures provided at the end of September 2017.

High activation levels and transaction volumes were maintained among newly acquired clients. The structure of credit cards sold in the third quarter of 2017 was dominated by the Citi Simplicity card with a share of 87%.

Cash loans and cash loans associated with credit card accounts

Unsecured cash advances (cash advances and cash advances associated with credit card accounts) stood at PLN 2.7 billion as at end the third quarter of 2017, which was an increase of 1% compared to the corresponding period of the previous year.
In the first three quarters of 2017, total sales of unsecured cash advances, including cash advances for credit card holders, amounted to PLN 1,033 million.

Mortgage products

In the third quarter of 2017, the Bank relied more heavily on external sales channels, including the services of credit agents and developers, while at the same time continuing its strategy of offering attractive products to clients from the Citigold Private Client, Citigold and Citi Priority segments. All new mortgage loans were granted to clients from these segments. Mortgage product sales in the third quarter of 2017 exceeded PLN 97 million and was more than twice as high as in the corresponding period of 2016. The balance of the mortgage loan portfolio at the end of the period discussed amounted to PLN 1.4 billion.

Insurance and investment products

At the end of the third quarter of 2017, the total value of investment products (including insurance products, net of bi-currency investments) purchased by consumers via the Bank was 19% higher than at the end of the corresponding period of 2016.

Within the framework of its cooperation with DMBH, in the third quarter of 2017 the Bank conducted three subscriptions for investment certificates issued by closed-end investment funds and one public offering of shares. As concerns structured products, in the same period the Bank conducted 29 structured bond subscriptions. The structured bonds were denominated in PLN (18 subscriptions), USD (8 subscriptions), and EUR (3 subscriptions).

Development of distribution channels

Online banking

In February 2017, a new version of the online platform for consumers and micro clients was released. The platform is based on responsive technology, i.e. it adapts to the device used by the client. Its modern design has been shaped by client comments, and its extensive functionality makes the use of other channels redundant. One of the many benefits for credit card holders is that they can manage their card limits themselves, divide transactions into installments and purchase insurance cover. An additional feature is the new documentation management module, which makes it possible to send correspondence, approve agreements and download certificates from home. In the following months, a refreshed module for managing the investment portfolio is to be deployed at Citibank Online, which will also be tailored to the client's device.

The number of active Citibank Online users, i.e. those who logged in to the online or mobile banking service using their browser or used the Citi Mobile app at least once every 30 days amounted to 338,000 at the end of the third quarter of 2017, representing an increase of over 5,000 users in relation to the corresponding period of 2016. The share of active users of Citibank Online on PCs within the entire portfolio of the Bank's clients amounted at the end of the third quarter of 2017 to 49,62%, an increase of 0.24 percentage points as compared to the third quarter of 2016.

At the same time, as at the end of the third quarter of 2017, digital users accounted for 72% of all clients who executed transactions, which translates to an increase of 1 p.p. compared to the third quarter of 2016.

In the third quarter of 2017, the share of credit cards sold online stood at ca. 31% as compared to the total level of acquisition of credit cards at the Bank.

Key improvements of basic online banking functionalities are being steadily introduced based on feedback from clients and online banking users; recently, the demographic data change module has been enhanced and a new online platform has been made available to retail banking small and medium-sized business clients.

Mobile banking

Owing to responsive technology, clients have access to all the features available in Citibank Online from any devices they use. Additionally, clients have access to a mobile app that includes features such as account balance snapshots without the need to log in, free-of-charge push notifications that keep clients informed about any changes to their accounts or cards, and also the fingerprint login functionality, which makes access to the application even easier and has been very much appreciated by clients.

At the end of the third quarter of 2017 the number of active mobile banking users, i.e. those who accessed mobile banking at least once every 30 days using the app or Citibank online using responsive technology, exceeded 115,000, an increase of ca. 35% compared to the third quarter of 2016.

The share of active users of mobile banking in the Citi Handlowy consumer portfolio stood at 17%, which represents an increase by 5 p.p. over the same period of 2016.

Indirect and Direct Customer Acquisition

- **Direct sales**

In the Universal Bankers retail distribution channel, Citi Handlowy continues to rapidly grow its client portfolio through acquiring three basic products: credit cards, cash advances and Citi Priority accounts. New clients are acquired thanks to the presence of mobile relationship managers close to where their clients are – at shopping malls located in major Polish cities, at gas stations and cinemas, and also during cultural and sports events. Cooperation with companies and office complexes is also developing dynamically, helping us reach a broad range of retail clients. Consistent focus on process improvement and sales digitization translates into increasing sales effectiveness.

- **Smart Banking Ecosystem**

As concerns its branch network, Citi Handlowy bases its client acquisition strategy on different outlet types and formats that are tailored to individual target client groups.

For the wealthiest clients served by the prestigious Citigold Private Client segment, there are dedicated outlets or separate areas at the Warsaw, Kraków and Gdańsk branches. Affluent clients from the Citigold segment are served at the highest service quality level by their Personal Relationship Managers at Citigold Centers situated in nine major Polish cities. At the same time, the Bank has developed remote service processes, which allows it to offer to clients an ever wider range of transactions during phone conversations with the Relationship Manager or during meetings at any location, without the need to visit a physical branch. The Bank has also introduced a new tool enabling the handling of Citigold products on iPads – without paper documents, using an electronic signature.

- **Citigold and Citigold Private Client branches**

As at the end of the third quarter of 2017, the network dedicated to serving affluent clients consisted of 11 branches, which were divided into three types: Smart HUB Gold, HUB Gold and Investment Center branches.

In the third quarter of 2017 the Bank continued its activities aimed to execute a strategy of transformation of the network of branches in major Polish cities. The strategy has been devised to ensure clients have access to a complete product service, relying on modern technology-based operating solutions which directly drive the efficiency of the performed transactions.

Changes to the network of outlets

Number of branches and other Points of Sale/touch points

	30.09.2017 (1)	31.12.2016 (2)	30.09.2016 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**26**	**25**	**36**	**1**	**(10)**
HUB Gold	8	7	8	1	-
Smart HUB Gold	2	2	2	-	-
Blue	-	-	9	-	(9)
Investment Center	1	1	2	-	(1)
Smart branch	14	14	14	-	-

	30.09.2017 (1)	31.12.2016 (2)	30.09.2016 (3)	Change (1)/(2)	Change (1)/(3)
Corporate branch	1	1	1	-	-
Other POS:					
Smart Mini	3	3		-	3

** 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 of end of the third quarter 2017, the Bank had full ratings awarded by Fitch Ratings ("Fitch").

On October 20, 2017 Fitch as part of the annual review, affirmed all ratings of the Bank in the following levels:

Long-term entity ranking *Long-term rating outlook*	A- *stable*
Short-term entity ranking	F1
Viability rating*	a-
Support rating	1
National long-term rating	AA+ (pol)
National short-term rating	F1+ (pol)

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

In its justification the Fitch Ratings stated that Bank's ratings (IDRs) are driven by the Bank's intrinsic strength, as reflected in the Viability rating and underpinned by potential majority shareholder support (Citigroup).

The Viability rating of the Bank reflects its low-risk business model and higher capital buffers.

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 amortized cost in consolidated statement of financial position.

PLN '000	30.09.2017		31.12.2016	
	Balance value	Fair value	Balance value	Fair value
Financial assets				
Amounts due from banks	604,926	604,922	587,087	587,071
Amounts due from customers	19,898,658	19,921,791	18,860,053	18,878,719
Financial liabilities				
Amounts due to banks	2,581,080	2,581,191	2,310,742	2,310,776
Amounts due to customers	32,323,832	32,323,380	33,936,511	33,935,951

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 2017, 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 636 thousand and the profit on sales to PLN 3,377 thousand.

In 9 months period of 2016 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.

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 2017

PLN '000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	1,247,414	1,063,431	-	2,310,845
derivatives	274	1,063,430	-	1,063,704
debt securities	1,204,929	1	-	1,204,930
capital instruments	42,211	-	-	42,211
Debt securities available-for-sale	18,017,051	437,514	-	18,454,565
Equity investments available for sale	1,249	-	22,125	23,374
Financial liabilities				
Financial liabilities held-for-trading	92,581	1,200,746	-	1,293,327
short sale of securities	92,581	-	-	92,581
derivatives	-	1,200,746	-	1,200,746
Hedging derivatives	-	55,200	-	55,200

As at 31 December 2016

PLN'000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	2,613,789	1,167,616	-	3,781,405
derivatives	-	1,167,134	-	1,167,134
debt securities	2,604,546	482	-	2,605,028
equity instruments	9,243	-	-	9,243
Hedging derivatives	-	12,244	-	12,244
Debt securities available-for-sale	16,766,272	2,306,099	-	19,072,371
Equity investments available for sale	1,118	-	18,965	20,083
Financial liabilities				
Financial liabilities held-for-trading	208,305	1,097,309	-	1,305,614
short sale of securities	208,106	-	-	208,106
derivatives	199	1,097,309	-	1,097,508
Hedging derivatives	-	39,897	-	39,897

On the 30 September of 2017 the amount of financial assets classified to the Level III includes the share of PLN 22,125 thousand in Visa Inc. (31 December 2016: PLN 18.965 thousands).

The fair value valuation method takes into account the value of shares of Visa Inc. as well as corrections resulting from legal cases (actual and potential) a party of which could be Visa or the Bank.

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.- 30.09.2017 Financial assets available-for-sale Equity investments	01.01.-31.12.2016 Financial assets available-for-sale Equity investments
As at 1 January	**18,965**	**63,323**
Derecognition of valuation of shares	-	(63,323)
Recognition of valuation of shares	-	17,355
Revaluation	3,160	1,610
As at the end of period	**22,125**	**18,965**

As a result of the final allocation of settlement of the Visa Europe Limited takeover by Visa Inc. in 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 2017 was PLN 1,928 thousands (31 December 2016: PLN 1,928 thousands).

In the 9 month period of 2017 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 2017 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 2017 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 2017 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.

As at 30 September 2017 there was no significant change in fair value of financial instruments classified to the available-for-sale portfolio in relation to the end of 2016. However, the decrease of that portfolio was mainly due to a decrease of the securities denominated in USD in the third quarter of 2017.

A decrease in the value of portfolio of financial instruments held-for-trade in relation to the end of 2016 was mainly caused by a sell of Polish securities denominated in PLN.

11 Impairment and provisions

PLN '000	As at 1 January 2017	Increases		Decreases				As at 30 September 2017
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale of receivables/other assets	Other*	
Impairment of financial assets								
Amounts due from banks	177	476	3	(468)	-	-	-	188
Amounts due from customers	563,421	141,121	-	(71,521)	(37,923)	-	(1,081)	594,017
	563,598	**141,597**	**3**	**(71,989)**	**(37,923)**	**-**	**(1,081)**	**594,205**
Provisions for granted financial liabilities and guarantees	7,215	8,770	-	(9,313)	-	-	-	6,672
	570,813	**150,367**	**3**	**(81,302)**	**(37,923)**	**-**	**(1,081)**	**600,877**
Other assets impairment								
Capital investment	6,826	-	-	-	-	(2,576)	-	4,250
Tangible assets available for sale	1,388	-	-	-	-	-	-	1,388
Other assets	563	1,139	-	(1,345)	(2)	-	(77)	278
	8,777	**1,139**	**-**	**(1,345)**	**(2)**	**(2,576)**	**(77)**	**5,916**
Total impairment of assets and provisions for granted financial liabilities and guarantees	**579,590**	**151,506**	**3**	**(82,647)**	**(37,925)**	**(2,576)**	**(1,158)**	**606,793**
Other provisions								
Contentious issues	3,823	5,463	-	(1,052)	-	-	(5,172)	3,062
Restructuring	11,818	-	-	(755)	-	-	(8,464)	2,599
Total other provisions	**15,641**	**5,463**	**-**	**(1,807)**	**-**	**-**	**(13,636)**	**5,661**

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

PLN '000	As at 1 January 2016	Increases		Decreases				As at 31 December 2016
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale of receivables/other assets	Other*	
Impairment of financial assets								
Amounts due from banks	1,750	3,426	-	(4,592)	-	-	(407)	177
Amounts due from customers	585,406	189,697	12,223	(114,305)	(47,346)	(62,254)	-	563,421
	587,156	**193,123**	**12,223**	**(118,897)**	**(47,346)**	**(62,254)**	**(407)**	**563,598**
Provisions for granted financial liabilities and guarantee	10,451	17,913	-	(21,149)	-	-	-	7,215
	597,607	**211,036**	**12,223**	**(140,046)**	**(47,346)**	**(62,254)**	**(407)**	**570,813**
Other assets impairment								
Capital investment	9,485	-	-	-	-	(2,659)	-	6,826
Tangible assets available for sale	1,401	-	-	-	-	(13)	-	1,388
Other assets	191	4,296	-	(3,885)	(9)	-	(30)	563
	11,077	**4,296**	**-**	**(3,885)**	**(9)**	**(2,672)**	**(30)**	**8,777**

PLN '000	As at 1 January 2016	Increases		Decreases				As at 31 December 2016
		Write down creation	Other*	Write down release	Movement of receivables to write downs	Sale of receivables/other assets	Other*	
Total impairment of assets and provisions for granted financial liabilities and guarantee	**608,684**	**215,332**	**12,223**	**(143,931)**	**(47,355)**	**(64,926)**	**(437)**	**579,590**
Other provisions								
Contentious issues	10,522	1,571	-	(4,961)	-	-	(3,309)	3,823
Restructuring	2,521	16,030	-	(977)	-	-	(5,756)	11,818
Total other provisions	**13,043**	**17,601**	**-**	**(5,938)**	**-**	**-**	**(9,065)**	**15,641**

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

In the period 1 January – 30 September 2017 and in 2016 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	30.09.2017	31.12.2016
Asset due to differed income tax	406,818	406,659
Provision due to differed income tax	231,849	208,276
Net asset due to differed income tax	**174,969**	**198,383**

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 2017 the value of purchased by the Group components of "fixed assets" equaled PLN 41,452 thousand (in 2016: PLN 28,951 thousand); the value of sold components equals PLN 13 724 thousand (in 2016: PLN 1,346 thousand).

As at 30 September 2017 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 2017 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 2017 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 2016 on June 22, 2017. The Meeting resolved to appropriate the amount of PLN 591,887,988.00 for the dividend payment, which means that the dividend per one ordinary share is PLN 4,53. 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 3, 2017 (the day of the dividend) and the day of the dividend payment for July 20, 2017 (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

As at 30 September 2017 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group.

19 Changes in granted financial and guarantee commitments

The detailed specification of granted financial and guarantee commitments as at 30 September 2017 and changes in comparison with the end of 2016 are as follows:

PLN '000	State as at		Change	
	30.09.2017	31.12.2016	PLN '000	%
Contingent liabilities granted				
financial	15,477,198	14,722,330	754,868	5.1%
Import letters of credit issued	156,089	144,829	11,260	7.8%
Credit lines granted	14,187,609	13,331,401	856,208	6.4%
Subscription of securities granted to other issuers	1,133,500	1,246,100	(112,600)	(9.0%)
Other				
guarantees	2,473,132	2,166,835	306,297	14.1%
Guarantees granted	2,430,437	2,131,868	298,569	14.0%
Export letters of credit confirmed	553	1,023	(470)	(45.9%)
Other	42,142	33,944	8,198	24.2%
	17,950,330	**16,889,165**	**1,061,165**	**6.3%**
Contingent liabilities received				
financial (deposits to receive)	-	-	-	-
guarantees (guarantees received)	18,490,500	18,125,921	364,579	2.0%
	18,490,500	**18,125,921**	**364,579**	**2.0%**
Contingent transactions due to FX, securities and derivatives (granted/received liabilities)				
Current*	-	1,222,536	(1,222,536)	(100.0%)
Forward **	2,912,050	151,432,880	(148,520,830)	(98.1%)
	2,912,050	**152,655,416**	**(149,743,366)**	**(98.1%)**

**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 2017 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 2017 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2017.

22 Information about shareholders

As at the day of publishing the Interim Statement for the third quarter of 2017 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 2017, annual consolidated financial report for the year 2016 and publishing this report for the third quarter 2017 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 2017	Number of shares on day of publishing the Annual Consolidated Financial Report for the year 2016	Number of shares on day of publishing the Interim Financial Statement for the first quarter 2017
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 of 2017 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 of 2017 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 of 2017 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 2017, the Bank was, among others, a party to 16 court proceedings associated directly with derivative transactions that have not been legally terminated: in 10 proceedings the Bank acted as a defendant and in 6 as a plaintiff. In addition, two cassation proceedings ended legally binding in favor of the Bank (one in the case filed by the Bank, the other in the case against the Bank) at that time were pending. 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 2017 (by the end of the third quarter) two cases ended legally binding and in favour of the Bank, regarding term financial transactions, where the Bank was defendat 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 addressees 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 the 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 in 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 4, 2017 the Bank's extraordinary appeal was accepted by the Supreme Court in pre-court protocol for further examination and recognition. On October 25, 2017 the verdict of the Supreme Court has been announced. The Supreme court reversed the judgment of the Court of Appeal and the case was referred to the Appeal Court. The Bank is waiting to serve the justification of the judgment of the Supreme Court.

In the third quarter 2017 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 2017, 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 2017, 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 Factors and events which could affect future financial performance of the Bank's Capital Group

The pace of monetary policy tightening by the world's major central banks may have an impact on risk appetite in international markets and on capital flows. In the scenario of rapid interest rate rises in the U.S., outflows of foreign capital from the emerging markets could be triggered. Rapid reduction in the ECB's assets buying program could also have a negative impact on the demand for assets in the region. As a result, the domestic currency would weaken and interest on both Treasury and corporate debt would increase.

The UK's exit from the European Union remains the key source of uncertainty over the coming years. In particular, a rise in risk aversion may be caused by potential lack of agreement on exit conditions and the so-called hard Brexit. The structural changes currently taking place in the EU could result in reducing the pool of EU funds available in the next EU financial perspective to entire Central Europe, including Poland. This risk would even exacerbate if governments of other European countries also started to ponder the decision to leave the European Union. In this regard, the parliamentary elections in Italy in 2018 also pose a political risk for the European Union. International trade may also suffer as a result of possible exacerbation of the protectionist movements of major economies, especially the US actions against China or NAFTA member states.

Any intensification of global geopolitical tensions may also threaten the stability of financial markets and hinder the influx of foreign capital into Poland. Conflicts in Syria, Ukraine or Afghanistan flaring up, as well as greater tension between the U.S. and North Korea could result in risk aversion and weaken the Polish zloty, negatively affecting both foreign investment in Poland and global economic growth.

Uncertainty concerning changes in domestic economic policy and the legal environment may contribute to Polish corporations putting off new investment projects. In the longer term, this could have a negative impact on the potential of the Polish economy.

Interim condensed standalone financial statements of the Bank for the third quarter of 2017

Condensed income statement

PLN '000	Third quarter period from 01.07.17 to 30.09.17	Third quarter accruals period from 01.01.17 to 30.09.17	Third quarter period from 01.07.16 to 30.09.16	Third quarter accruals period from 01.01.16 to 30.09.16
Interest and similar income	352,440	994,034	301,464	924,185
Interest expense and similar charges	(79,832)	(204,668)	(54,783)	(180,066)
Net interest income	**272,608**	**789,366**	**246,681**	**744,119**
Fee and commission income	155,019	454,905	148,969	449,412
Fee and commission expense	(15,422)	(49,399)	(17,697)	(50,779)
Net fee and commission income	**139,597**	**405,506**	**131,272**	**398,633**
Dividend income	**-**	**32,835**	**31**	**28,957**
Net income on trading financial instruments and revaluation	**93,112**	**245,152**	**92,946**	**237,470**
Net gain on debt investment securities available-for-sale	**12,942**	**28,803**	**21,676**	**42,601**
Net gain on equity investment instruments available-for-sale	**-**	**3,377**	**1,534**	**95,441**
Net gain/(loss) on hedge accounting	**2,891**	**6,445**	**463**	**8,024**
Other operating income	6,171	20,487	9,888	31,943
Other operating expenses	(6,727)	(24,696)	(6,711)	(20,322)
Net other operating income	**(556)**	**(4,209)**	**3,177**	**11,621**
General administrative expenses	**(254,440)**	**(840,218)**	**(264,397)**	**(831,056)**
Depreciation and amortization	**(18,399)**	**(53,565)**	**(17,040)**	**(52,474)**
Profit on sale of other assets	**25**	**52**	**8**	**95**
Net impairment due to financial assets and provisions for granted financial liabilities and guarantees	**(22,060)**	**(61,003)**	**(19,403)**	**(35,409)**
Tax on certain financial institutions	**(19,267)**	**(59,378)**	**(18,831)**	**(50,343)**
Profit before tax	**206,453**	**493,163**	**178,117**	**597,679**
Income tax expense	**(44,289)**	**(117,069)**	**(40,457)**	**(121,763)**
Net profit	**162,164**	**376,094**	**137,660**	**475,916**
Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Earnings per share (in PLN)		2.88		3.64
Diluted net earnings per share (in PLN)		2.88		3.64

Condensed statement of comprehensive income

PLN '000	Third quarter period from 01.07.17 to 30.09.17	Third quarter accruals period from 01.01.17 to 30.09.17	Third quarter period from 01.07.16 to 30.09.16	Third quarter accruals period from 01.01.16 to 30.09.16
Net profit	**162,164**	**376,094**	**137,660**	**475,916**
Other comprehensive income, that might be subsequently reclassified to profit or loss				
Net actuarial profits on specific services program valuation	51,853	134,111	5,594	(1,834)
Other comprehensive income, that cannot be subsequently reclassified to profit or loss				
Net value of available-for-sale financial assets	-	1,883	-	-
Total comprehensive income	**214,017**	**512,088**	**143,254**	**474,082**

Condensed statement of financial position

PLN '000 State as at	30.09.2017	31.12.2016
ASSETS		
Cash and balances with the Central Bank	550,673	665,755
Amounts due from banks	604,374	586,973
Financial assets held-for-trading	2,268,634	3,772,162
Hedging derivatives	-	12,244
Debt securities available-for-sale	18,454,565	19,072,371
Equity investments	131,604	125,107
Amounts due from customers	19,821,382	18,795,341
Tangible fixed assets	343,255	332,336
Intangible assets	1,360,428	1,349,810
Current income tax receivables	-	12,911
Deferred income tax asset	176,158	199,354
Other assets	197,623	165,356
Non-current assets held-for-sale	1,928	1,928
Total assets	**43,910,624**	**45,091,648**
LIABILITIES		
Amounts due to banks	2,580,965	2,303,627
Financial liabilities held-for-trading	1,293,327	1,305,614
Hedging derivatives	55,200	39,897
Amounts due to customers	32,376,112	34,031,947
Provisions	11,958	22,068
Current income tax liabilities	26,070	-
Other liabilities	922,866	664,569
Total liabilities	**37,266,498**	**38,367,722**
EQUITY		
Ordinary shares	522,638	522,638
Share premium	2,944,585	2,944,585
Revaluation reserve	(80,950)	(215,061)
Other reserves	2,881,759	2,867,565
Retained earnings	376,094	604,199
Total equity	**6,644,126**	**6,723,926**
Total liabilities and equity	**43,910,624**	**45,091,648**

Condensed statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2017	**522,638**	**2,944,585**	**(215,061)**	**2,867,565**	**604,199**	**6,723,926**
Total comprehensive income, including:	-	-	134,111	1,883	376,094	512,088
Net profit	-	-	-	-	376,094	376,094
Net valuation of available-for-sale financial assets	-	-	134,111	-	-	134,111
Net actuarial profits on specific services program valuation	-	-	-	1,883	-	1,883
Dividends paid	-	-	-	-	(591,888)	(591,888)
Transfer to capital	-	-	-	12,311	(12,311)	-
Balance as at 30 September 2017	**522,638**	**2,944,585**	**(80,950)**	**2,881,759**	**376,094**	**6,644,126**

PLN '000	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**

PLN '000	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:	-	-	(51,252)	-	604,199	552,947
Net profit	-	-	-	-	604,199	604,199
Net valuation of available-for-sale financial assets	-	-	(51,252)	-	-	(51,252)
Dividends paid	-	-	-	-	(611,487)	(611,487)
Transfer to capital	-	-	-	8,740	(8,740)	-
Balance as at 31 December 2016	**522,638**	**2,944,585**	**(215,061)**	**2,867,565**	**604,199**	**6,723,926**

Condensed summary statement of cash flows

PLN '000	Third quarter accruals period from 01.01.17 to 30.09.17	Third quarter accruals period from 01.01.16 to 30.09.16
Cash at the beginning of the reporting period	**672,754**	**2,354,108**
Cash flows from operating activities	895,387	(735,638)
Cash flows from investing activities	(53,560)	119,291
Cash flows from financing activities	(672,712)	(652,524)
Cash at the end of the reporting period	**841,869**	**1,085,237**
Increase/(decrease) in net cash	**169,115**	**(1,268,871)**

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 2016 and interim condensed consolidated financial statement of the Group for the third quarter 2017.

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 2017 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 2017 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 2016.

Other information and explanations concerning these interim condensed consolidated financial statements for the third quarter 2017 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 2017 is presented below.

Bank's financial results

For first three quarters of 2017 the Bank has generated profit before tax of PLN 493 million, in comparison to PLN 598 million in the corresponding period of 2016. Gross profit in third quarter 2017 was PLN 206 million, in comparison to PLN 178 million in the same period of 2016.

Net profit accruals (for January-September, 2017 period) was PLN 376 million in comparison to PLN 476 million of net profit in the corresponding period of 2016, while net profit in third quarter of 2017 was PLN 162 million in comparison to PLN 138 million of net profit in corresponding period of 2016.

The significant impact on the Bank's net profit in the third quarter 2017 had increase of interest and fees result by PLN 34 million (or 9.1%), decrease of financial instruments result (trade financial instruments and revaluation, debt investment securities, equity investment instruments) by total of PLN 10 million (or 8.7%), increase of result on hedge accounting by PLN 2 million, decrease in Bank's activity costs and general and administrative expenses and depreciation by total of PLN 9 million (or 3.1%), higher (net) impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities by PLN 3 million (or 13.7%), decrease of result on other operating income and expenses as well as result on sale of other assets by total of PLN 4 million and higher income tax expense by PLN 4 million (or 9.5%).

The interim condensed consolidated financial statements for the third quarter of 2017 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, Control and Tax Department

Date and signature

13.11.2017

Signature of the Vice-President of
Management Board

Date and signature

13.11.2017