



CONDENSED INTERIM STAND-ALONE FINANCIAL STATEMENTS  
OF BANK HANDLOWY W WARSZAWIE S.A.  
FOR THE 6 MONTH PERIOD ENDED 30 JUNE 2017

AUGUST 2017

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## Condensed income statement

	For a period	II quarter 01.04. - 30.06. 2017	I half of the year 01.01. - 30.06. 2017	II quarter 01.04. - 30.06. 2016	I half of the year 01.01. - 30.06. 2016
<i>PLN'000</i>	Note				
Interest and similar income		329,577	641,594	316,097	622,721
Interest expense and similar charges		(66,422)	(124,836)	(64,849)	(125,283)
<b>Net interest income</b>		<b>263,155</b>	<b>516,758</b>	<b>251,248</b>	<b>497,438</b>
Fee and commission income		157,952	299,886	149,007	300,443
Fee and commission expense		(16,937)	(33,977)	(17,576)	(33,082)
<b>Net fee and commission income</b>		<b>141,015</b>	<b>265,909</b>	<b>131,431</b>	<b>267,361</b>
Dividend income		32,835	32,835	28,926	28,926
Net income on trading financial instruments and revaluation		79,634	152,040	106,656	144,524
Net gain on debt investment securities available-for-sale		10,875	15,861	14,301	20,925
Net gain on equity investment instruments available-for-sale		3,085	3,377	93,907	93,907
Net gain/(loss) on hedge accounting		(1,027)	3,554	3,404	7,561
Other operating income		5,939	14,316	9,101	22,055
Other operating expense		(6,535)	(17,969)	(6,131)	(13,611)
<b>Net other operating income and expense</b>		<b>(596)</b>	<b>(3,653)</b>	<b>2,970</b>	<b>8,444</b>
General administrative expense		(265,201)	(585,778)	(278,536)	(566,659)
Depreciation and amortization		(18,680)	(35,166)	(17,154)	(35,434)
Profit on sale of other assets		25	27	78	87
Net impairment loss on financial assets and provisions for granted financial liabilities and guarantees	5	(9,273)	(38,943)	(21,212)	(16,006)
Tax on some financial institutions		(20,518)	(40,111)	(18,375)	(31,512)
<b>Profit before tax</b>		<b>215,329</b>	<b>286,710</b>	<b>297,644</b>	<b>419,562</b>
Income tax expense		(41,029)	(72,780)	(57,540)	(81,306)
<b>Net profit</b>		<b>174,300</b>	<b>213,930</b>	<b>240,104</b>	<b>338,256</b>
Weighted average number of ordinary shares (in pcs)			130 659 600		130,659,600
Earnings per share (in PLN)			1.64		2.59
Diluted net earnings per share (in PLN)			1.64		2.59

Explanatory notes on pages 7-18 are integral part of the condensed interim standalone financial statements.

## Condensed statement of comprehensive income

	For a period	II quarter 01.04. - 30.06. 2017	I half of the year 01.01. - 30.06. 2017	II quarter 01.04. - 30.06. 2016	I half of the year 01.01. - 30.06. 2016
<i>PLN'000</i>					
<b>Net profit</b>		<b>174,300</b>	<b>213,930</b>	<b>240,104</b>	<b>338,256</b>
<b>Other comprehensive income, that might be subsequently reclassified to profit or loss</b>					
Changes in value of available-for-sale financial assets		50,276	82,258	(102,023)	(7,428)
<b>Other comprehensive income, that cannot be subsequently reclassified to profit or loss</b>					
Net actuarial profits on specific services program valuation		1,883	1,883	-	-
<b>Total comprehensive income</b>		<b>226,459</b>	<b>298,071</b>	<b>138,081</b>	<b>330,828</b>

Explanatory notes on pages 7-18 are integral part of the condensed interim standalone financial statements.

## Condensed statement of financial position

PLN '000	State as at	30.06.2017	31.12.2016
	Note		
<b>ASSETS</b>			
Cash and balances with the Central Bank		469,006	665,755
Amounts due from banks		748,300	586,973
Financial assets held-for-trading		1,805,514	3,772,162
Hedging derivatives		857	12,244
Debt securities available-for-sale		19,480,250	19,072,371
Equity investments		129,853	125,107
Amounts due from customers	6	19,651,446	18,795,341
Tangible fixed assets		333,755	332,336
Intangible assets		1,367,109	1,349,810
Current income tax receivables		-	12,911
Deferred tax asset		201,956	199,354
Other assets		206,088	165,356
Non-current assets held-for-sale		1,928	1,928
<b>Total assets</b>		<b>44,396,062</b>	<b>45,091,648</b>
<b>LIABILITIES</b>			
Amounts due to banks		2,609,338	2,303,627
Financial liabilities held-for-trading		1,296,396	1,305,614
Hedging derivatives		37,336	39,897
Amounts due to customers		32,428,902	34,031,947
Provisions		14,382	22,068
Current income tax liabilities		32,420	-
Other liabilities		1,547,179	664,569
<b>Total liabilities</b>		<b>37,965,953</b>	<b>38,367,722</b>
<b>EQUITY</b>			
Ordinary shares		522,638	522,638
Share premium		2,944,585	2,944,585
Revaluation reserve		(132,803)	(215,061)
Other reserves		2,881,759	2,867,565
Retained earnings		213,930	604,199
<b>Total equity</b>		<b>6,430,109</b>	<b>6,723,926</b>
<b>Total liabilities and equity</b>		<b>44,396,062</b>	<b>45,091,648</b>

Explanatory notes on pages 7-18 are integral part of the condensed interim standalone financial statements.

## Condensed statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2017</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(215,061)</b>	<b>2,867,565</b>	<b>604,199</b>	<b>6,723,926</b>
Total comprehensive income, including:	-	-	82,258	1,883	213,930	298,071
Net profit	-	-	-	-	213,930	213,930
Net valuation of available-for-sale financial assets	-	-	82,258	-	-	82,258
Net actuarial profits on specific services program valuation	-	-	-	1,883	-	1,883
Dividends to be paid	-	-	-	-	(591,888)	(591,888)
Transfer to capital	-	-	-	12,311	(12,311)	-
<b>Balance as at 30 June 2017</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(132,803)</b>	<b>2,881,759</b>	<b>213,930</b>	<b>6,430,109</b>

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2016</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(163,809)</b>	<b>2,858,825</b>	<b>620,227</b>	<b>6 782 466</b>
Total comprehensive income, including:	-	-	(7,428)	-	338,256	330 828
Net profit	-	-	-	-	338,256	338 256
Net valuation of available-for-sale financial assets	-	-	(7,428)	-	-	(7 428)
Dividends to be paid	-	-	-	-	(611,487)	(611 487)
Transfer to capital	-	-	-	8,740	(8,740)	-
<b>Balance as at 30 June 2016</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(171,237)</b>	<b>2,867,565</b>	<b>338,256</b>	<b>6 501 807</b>

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2016</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(163,809)</b>	<b>2,858,825</b>	<b>620,227</b>	<b>6,782,466</b>
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)	-
<b>Balance as at 31 December 2016</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(215,061)</b>	<b>2,867,565</b>	<b>604,199</b>	<b>6,723,926</b>

Explanatory notes on pages 7-18 are integral part of the condensed interim standalone financial statements.

## Condensed statement of cash flows

	For a period	01.01. – 30.06. 2017	01.01. – 30.06. 2016
<i>PLN '000</i>			
<b>A. Cash flows from operating activities</b>			
I. Net profit		213,930	338,256
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:		(685,638)	(2,156,804)
Current and deferred income tax recognized in income statement		72,780	81,306
Depreciation expense		35,166	35,434
Net impairment due to financial assets value loss		39,256	18,935
Net provisions (recoveries)		4,572	(7,336)
Net interest income		(516,758)	(497,438)
Dividend income from subsidiaries		(24,145)	(21,724)
Profit/loss on investing activities		-	(74)
Net unrealized exchange differences		4,914	2,003
Other adjustments		(5,327)	(21,677)
<b>Cash flows from operating income before changes in operating assets and liabilities</b>		<b>(389,542)</b>	<b>(410,571)</b>
<b>Change in operating assets (excl. cash and cash equivalents)</b>		<b>677,302</b>	<b>4,382,917</b>
Change in amounts due from banks		(61,606)	64,968
Change in amounts due from customers		(898,107)	1,049,678
Change in assets available-for-sale		(301,166)	(1,341,118)
Change in equity investments		635	213
Change in financial assets held-for-trading		1,947,421	4,627,439
Change in derivative hedging instruments		11,387	1,795
Change in other assets		(21,262)	(20,058)
<b>Change in operating liabilities (excl. cash and cash equivalents)</b>		<b>(973,398)</b>	<b>(6,129,150)</b>
Change in amounts due to banks		358,721	(4,557,267)
Change in amounts due to customers		(1,601,129)	(192,556)
Change in liabilities held-for-trading		(9,218)	(1,629,031)
Change in amounts due to hedging derivatives		(2,561)	(14,978)
Change in other liabilities		280,789	264,682
<b>Interest received</b>		<b>654,240</b>	<b>686,369</b>
<b>Interest paid</b>		<b>(126,899)</b>	<b>(128,766)</b>
<b>Income tax paid</b>		<b>(49,788)</b>	<b>(86,835)</b>
<b>III. Net cash flows from operating activities</b>		<b>5,845</b>	<b>(1,347,780)</b>
<b>B. Cash flows from investing activities</b>			
Purchase of tangible fixed assets		(21,497)	(11,175)
Disposal of tangible fixed assets		-	1
Purchase of intangible assets		(34,803)	(12,105)
Disposal of fixed assets held-for-sale		-	73
Dividends received		12,467	3,828
Reduction of the share capital of subsidiaries		-	129,626
<b>Net cash flows from investing activities</b>		<b>(43,833)</b>	<b>110,248</b>
<b>C. Cash flows from financing activities</b>			
Repayment of long-term loans from financial sector		(48,730)	(30,220)
<b>Net cash flows from financing activities</b>		<b>(48,730)</b>	<b>(30,220)</b>
<b>D. Exchange rates differences resulting from cash and cash equivalent calculation</b>		<b>(9,047)</b>	<b>2,733</b>
<b>E. Net increase/(decrease) in cash and cash equivalent</b>		<b>(95,765)</b>	<b>(1,265,019)</b>
<b>F. Cash and cash equivalent at the beginning of reporting period</b>		<b>672,754</b>	<b>2,354,108</b>
<b>G. Cash and cash equivalent at the end of reporting period (see note 8)</b>		<b>576,989</b>	<b>1,089,089</b>

Explanatory notes on pages 7-18 are integral part of the condensed interim standalone financial statements.

## Supplementary notes to the condensed interim standalone financial statements

### 1. General information about the Bank

Bank Handlowy w Warszawie S.A. ("the Bank") Head Office is located in Warsaw at Senatorska 16, 00-923 Warsaw. The Bank was established on the basis 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 is expected to continue the business activity in the foreseeable future.

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

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

The Bank operates on the basis of applicable regulations and its Articles of Association.

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets.

### 2. Declaration of conformity

These condensed standalone interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 'Interim Financial Reporting' adopted by European Union and other applicable regulations. These 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 year ended 31 December 2016 and condensed interim consolidated financial statement of the Capital Group of Bank Handlowy w Warszawie S.A. for the period of 6 months ended 30 June 2017.

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 six-month period ended 30 June 2017 which is deemed to be the current interim financial reporting period.

These condensed standalone interim financial statements were approved by the Board of Directors on 21 August 2017.

### 3. Significant accounting policies

Condensed interim standalone financial statements of the Bank for the first half of 2017 have been prepared in accordance with accounting policies applied and summarized in the annual standalone financial statements of the Bank for the financial year ended 31 December 2016. The condensed interim standalone financial statement of the Bank have been prepared in accordance with the same accounting policies used in the annual standalone financial statements for the financial year ended 31 December 2016

The preparation of condensed interim standalone financial statements of the Bank with accordance to International Financial Reporting Standards requires from the Management to make certain estimates and adopt the 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 financial statements of the Bank 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 6 month period ended 30 June 2017, concern:

- Impairment of financial assets,
- Fair value of derivatives,
- Employee benefits.

The condensed interim standalone financial statements of the Bank have been prepared for the period from 1 January 2017 to 30 June 2017 and from 1 April 2017 to 30 June 2017, and for statements of financial situation as at 30 June 2016. Comparable financial data are presented for the period from 1 January 2016 to 30 June 2016 and from 1 April 2016 to 30 June 2016 and for statement of financial position as at 31 December 2016.

The financial statements are presented in PLN (presentation currency), 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 provide sufficient time for the Bank to conduct independent validation of newly prepared tools. The review is to cover 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 made an analysis of its financial instruments contracts, in order to assess their contractual features according to IFRS 9 classification and valuation requirements. The final assessment of adequate method of classification and valuation, related to particular elements is during the process of elaboration.

Based on the history and plans for approach to management of assets in respect of the way cash flows from loan contracts are realized, Bank infers that business model assessment does not provoke significant changes in classification and measurement compared current practice under IAS 39. Bank grants loans and other forms of financing currently classified as loans under IAS 39 in order to obtain cash flows resulting from repayment of principal and interest only. Portfolio sales take place very rarely and involve only the low quality credit portfolio. Solely, in case of confirmation of the particular form of financing or its granting due to the sale purpose, the Bank will classified those portfolios as 'held-for-trade'

In the retail loan portfolio Bank holds credit card products and installment loans for credit card customers in which, according to initial assessment, there is a leverage formula. The Bank and external entity, initiated the process of creating respective valuation models, of portfolios in fair value through profit or loss. For a current stage of work it is not possible to estimate impact of that measurement on the financial statement of the Bank.

The process of verification the SPPI test, reaches its final stage, whereas the confirmation of the Bank's assessment and conclusion is expected to be terminated in the third quarter of the year. Based on initial assessment Bank does not consider fair value measurement of corporate loans.

Bank has not purchased any portfolios and in the processes of restructuring of contracts have not identified situations requiring derecognition form balance sheet. At present, the Bank is analyzing whether it is indispensable to present credit-impaired assets (POCI) in accordance with the restructuring process practice.

All the above aspects, in order to obtain assurance that conclusions reached by Bank and requirements identified are correct are verified by independent professional entity.

### 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 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.

Therefore, much emphasis must be put on defining clear and transparent criteria standing behind significant increase in credit risk concept. These criteria should be constant over time, which will enable to conduct an analysis of the reasons for changes in provisions. Bank assumes that above criteria will be based on current credit risk management tools where possible.

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. Segment reporting

Information on operating segments is presented in the Condensed interim consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the 6 month period ended 30 June 2017.

## 5. Net impairment loss on financial assets and provisions for granted financial liabilities and guarantees

PLN'000	II quarter	I half of the year	II quarter	I half of the year
	01.04. - 30.06. 2017	01.01. - 30.06. 2017	01.04. - 30.06. 2016	01.01. - 30.06. 2016
<b>Impairment allowances for financial assets</b>				
Equity investments	-	-	(19)	(90)
Amounts due from banks	(146)	(270)	(361)	(2,421)
Amounts due from customers	(41,744)	(93,445)	(46,976)	(87,038)
Receivables from matured derivative transactions	-	(1)	(8)	(15)
	<b>(41,890)</b>	<b>(93,716)</b>	<b>(47,364)</b>	<b>(89,564)</b>
<b>Reversals of impairment allowances for financial assets</b>				
Equity investments	4,021	3,937	-	-
Amounts due from banks	163	363	608	3,552
Amounts due from customers	27,075	47,086	20,939	55,791
Receivables from matured derivative transactions	50	127	36	790
Recoveries from sold debts	(14)	45	37	8,162
Others	1,306	2,902	1,182	2,335
	<b>32,601</b>	<b>54,460</b>	<b>22,802</b>	<b>70,630</b>
<b>Net impairment allowances financial assets</b>	<b>(9,289)</b>	<b>(39,256)</b>	<b>(24,562)</b>	<b>(18,934)</b>
Created of provisions for granted financial and guarantee commitments	(2,850)	(5,731)	(2,569)	(7,980)
Release of provisions for granted financial and guarantee commitments	2,866	6,044	5,919	10,908
<b>Net impairment allowances provisions for granted financial and guarantee commitments</b>	<b>16</b>	<b>313</b>	<b>3,350</b>	<b>2,928</b>
<b>Net impairment allowances financial assets and provisions for granted financial and guarantees liabilities</b>	<b>(9,273)</b>	<b>(38,943)</b>	<b>(21,212)</b>	<b>(16,006)</b>

## 6. Amounts due from customers

PLN '000	30.06.2017	31.12.2016
<b>Amounts due from financial sector entities</b>		
Loans, placements and advances	270,190	293,117
Debt securities unlisted	1,200,133	1,199,671
Guarantee funds and deposits pledged as collateral	307,616	160,349
<b>Total gross value</b>	<b>1,777,939</b>	<b>1,653,137</b>
Impairment write-downs	(19,576)	(17,810)
<b>Total net value</b>	<b>1,758,363</b>	<b>1,635,327</b>
<b>Amounts due from non-financial sector entities</b>		
Loans and advances	16,919,209	16,051,239
Unlisted debt securities	564,646	514,401
Purchased receivables	965,530	1,116,054
Realized guarantees	1,039	1,056
Other receivables	14,533	18,671
<b>Total gross value</b>	<b>18,464,957</b>	<b>17,701,421</b>
Impairment write-downs	(571,874)	(541,407)
<b>Total net value</b>	<b>17,893,083</b>	<b>17,160,014</b>
<b>Total net value of receivables from customers</b>	<b>19,651,446</b>	<b>18,795,341</b>

\*As at 30 June 2017 position "Other receivables" contains leasing receivables in amount PLN 5 139 thousand (31 December 2016: PLN 0,0 thousand).

The closing balance of impairment recognized on loans and advances to customers consisted of:

PLN '000	30.06.2017	31.12.2016
Portfolio receivables impairment loss	(264,541)	(227,432)
Individual receivables impairment loss	(249,045)	(252,096)
Incurred but not reported (IBNR)	(77,864)	(79,689)
<b>Impairment allowances, total</b>	<b>(591,450)</b>	<b>(559,217)</b>

Movement in value loss due to receivables from customers consisted of following categories:

PLN '000	01.01. – 30.06. 2017	01.01. – 30.06. 2016
<b>As at 1 January</b>	<b>(559,217)</b>	<b>(577,396)</b>
Increases (due to):		
Increase of write downs	(93,445)	(87,038)
Other	-	(10,933)
Decreases (due to):		
Release of net write-offs on receivables on made derivatives transactions	126	775
Receivables derecognition	11,827	19,034
Write-downs release	47,086	55,791
Sale of receivables	-	15,053
Other	2,173	-
<b>As at the end of period</b>	<b>(591,450)</b>	<b>(584,714)</b>

### Finance lease receivables

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 and are made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group.

Amounts due from customers include the following amounts concerning finance lease receivables from non-financial sector entities:

PLN '000	30.06.2017
Gross finance lease receivables	5,139
Unrealized finance income	-
<b>Net finance lease receivables</b>	<b>5,139</b>

As at 30 June 2017 impairment for finance lease receivables amounted to PLN 11 thousand.

Finance lease income is presented in the 'interest income'.

## 7. Financial instruments disclosures

### Fair value of financial assets and liabilities

The summary below provides statement of financial position (by category) and fair value information for each category of financial assets and liabilities.

PLN '000	30.06.2017		31.12.2016	
	Balance value	Fair value	Balance value	Fair value
<b>Assets</b>				
Amounts due from banks	748,300	748,300	586,973	586,957
Amounts due from customers	19,651,446	19,642,199	18,795,341	18,813,995
<b>Liabilities</b>				
Amounts due to banks	2,609,338	2,609,643	2,303,627	2,303,661
Amounts due to customers	32,428,902	32,428,418	34,031,947	34,031,387

With exception to information provided in the table above and investments in equity instruments available-for-sale evaluated in purchase price, the balance value of other assets and financial liabilities included in the standalone statement of financial position are equal to fair value due to their short-term nature.

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

According to the Bank'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 the first half of 2017, among all equity investments, where fair value could not be established, the Bank sold Shares in Odelewnie 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 the first half of 2016, among all equity investments, where fair value could not be established, the Bank sold Shares in Odelewnie Polskie S.A. The balance value of sold shares amounted to PLN 212 thousand and the profit on sales to PLN 932 thousand.

### 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 Banks's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

The Bank applies the following methods of measurement of particular types of derivative instruments instruments:

- FX forwards – discounted cash flow 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 with 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 stand-alone 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 quoted in an active market, where regular quotations are available and turnover is sufficient. 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 debt 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 prices for a given instrument or listed 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 assets and liabilities in the standalone statement of financial position, in accordance with a fair value, classified by above levels.

#### As at 30 June 2017

PLN '000	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held-for-trading	923,143	882,371	-	1,805,514
derivatives	-	882,370	-	882,370
debt securities	923,143	1	-	923,144
Derivative hedge instruments	-	857	-	857
Debt securities available-for-sale	19,412,661	67,589	-	19,480,250
Equity investments available-for-sale	1,025	-	20,273	21,298
<b>Financial liabilities</b>				
Financial liabilities held-for-trading	184,889	1,111,507	-	1,296,396
short sale of securities	184,724	-	-	184,724
derivatives	165	1,111,507	-	1,111,672
Derivative hedge instruments	-	37,336	-	37,336

#### As at 31 December 2016

PLN '000	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held-for-trading	2,604,546	1,167,616	-	3,772,162
derivatives	-	1,167,134	-	1,167,134
debt securities	2,604,546	482	-	2,605,028
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	838	-	18,965	19,803
<b>Financial liabilities</b>				
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<sup>th</sup> of June 2017 the amount of financial assets classified to the Level III includes the share of PLN 20,273 thousand in Visa Inc. On the 31<sup>st</sup> of December 2016 that amount includes the share of PLN 18,965 thousand in Visa Europe Limited.

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 measured at a fair value that was defined by using relevant parameters not-market based are presented below:

PLN '000	01.01.-30.06.2017	01.01.-31.12.2016
	Financial assets available-for-sale	Financial assets available-for-sale
	Equity investments	Equity investments
<b>As at 1 January</b>	<b>18,965</b>	<b>63,323</b>
Derecognition of valuation of shares	-	(63,323)
Recognition of valuation of shares	-	17,355
Revaluation	1,308	1,610
<b>As at the end of period</b>	<b>20,273</b>	<b>18,965</b>

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

In the consolidated statement of financial position, except for assets described above, there are 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 June 2017 was PLN 1,928 thousand (31 December 2016: PLN 1,928 thousand).

In the first half of 2017 the Group has made no transfers between levels of instruments' fair value due to established method of setting fair value.

In the first half 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 first half, the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

In the first half of 2017 there was no change in the business or economic situation, that could influence the fair value of Group's financial assets or liabilities, regardless of their presentation in the fair value or amortized cost.

As at 30 June 2017, there was no substantial change in the financial instruments fair value, classified to the available-for-sale portfolio in comparison to the end of 2016 reporting period. However, an increase of that portfolio was mainly due to the enhancement of the securities denominated euro portfolio.

The decrease in the value of the held-for-trade financial instruments portfolio in comparison to December 2016 proceeds from the sale of polish securities denominated in Polish zlotys.

## 8. Statement of cash flows

PLN'000	30.06.2017	31.12.2016
<b>Cash related items:</b>		
Cash in hand	405,298	380,757
Nostro current account in Central Bank	63,708	283,587
Current accounts in other banks (nostro, overdrafts on loro accounts)	107,983	8,410
	<b>576,989</b>	<b>672,754</b>

## 9. Seasonality or periodicity of business activity

The business activity of the Bank does not involve significant events that would be subject to seasonal or cyclical variations.

## 10. Issue, redemption and repayment of debt and equity securities

In the first half of the year 2017 no issue, pay back or repurchase of debt or equity securities took place.

## 11. 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).

As at day of approval of this financial statement by Management Board the dividend was paid.

## 12. Changes in Bank's structure

In the first half of 2017 the structure of the Bank has not changed as a result of merger, acquisition or disposal of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

## 13. Major events after the balance sheet date not included in the financial statements

After 30 June 2017 there were no major events undisclosed in these financial statements, that could have a significant influence on the net result of the Bank.

## 14. Changes in granted and received financial and guarantee commitments

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

PLN '000	As at		Change	
	30.06.2017	31.12.2016	PLN '000	%
<b>Contingent liabilities</b>				
Financial	15,495,878	14,773,298	722,580	4.9%
Import letters of credit issued	208,753	144,829	63,924	44.1%
Lines of credit granted	13,969,452	13,382,369	587,083	4.4%
Underwriting	1,196,100	1,246,100	(50,000)	(4.0%)
Other	121,573	-	121,573	-!
Guarantees	2,341,344	2,132,891	208,453	9.8%
Guarantees granted	2,340,637	2,131,868	208,769	9.8%
Export letters of credit confirmed	707	1023	(316)	(30.9%)
	<b>17,837,222</b>	<b>16,906,189</b>	<b>931,033</b>	<b>5.5%</b>
<b>Contingent liabilities received</b>				
financial (deposits to receive)	11,912	-	11,912	-
guarantees (guarantees received)	17,845,903	18,125,921	(280,018)	(1.5%)
	<b>17,857,815</b>	<b>18,125,921</b>	<b>(268,106)</b>	<b>(1.5%)</b>
<b>Contingent transactions due to FX, securities and derivatives (granted/received liabilities)</b>				
Current*	3,367,730	1,222,536	2,145,194	175.5%
Forward **	174,562,892	151,423,247	23,139,645	15.3%
	<b>177,930,622</b>	<b>152,645,783</b>	<b>25,284,839</b>	<b>16.6%</b>

\*Foreign exchange and securities transactions with current value date

\*\* Derivatives: FX, interest rate transactions and options

## 15. Information about shareholders

The table below presents the list of shareholders that hold at both 30 June 2017 and the day of publishing this standalone financial statement for the first half of 2017 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.

	Value of shares ('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
	<b>522,638</b>	<b>130,659,600</b>	<b>100.0</b>	<b>130,659,600</b>	<b>100.0</b>

In the first half of 2017 or during the period from publishing last interim report for the first quarter 2017 to publishing this standalone financial statement for the first half of 2017, the structure of major shareholdings of the Bank has not undergone any changes.

## 16. Information on pending court proceedings

In the first half of 2017 there was no single proceeding regarding Bank's receivables or liabilities, the value of which would equal to at least 10% of Bank's equity, pending in court, public administration authority or an arbitration authority.

In the first half of 2017 the total value of all legal proceedings regarding receivables with the participation of the Bank did not exceed 10% of Bank's equity.

In the first half of 2017 the total value of all legal proceedings regarding liabilities with the participation of the Bank did not exceed 10% of Bank's equity.

In accordance with applicable regulations, the Bank 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, the Bank recognized adequate provisions.

As at 30 June 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. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. In the first half of 2017, two cases ended legally binding and in favour of the Bank, regarding term financial transactions, where the Bank was defendant or plaintiff.

In the first half of 2017 the Bank has made significant settlement due to court case. As the result of dispute's final settlement, the Bank has made a sentenced payment to plaintiff in the amount of PLN 5 155 thousand

The Bank was a party to the proceeding initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa Europay payment system operators and banks - issuers of Visa cards and Europay/ Eurocard/ Mastercard and one of the addressee of the President of UOKiK's decision in the case. This procedure applies to practices limiting the competition on payment-cards market in Poland, by consisting in the joint determination of 'interchange fees' for transactions made by cards of Visa and Europay / Eurocard / Mastercard as well as limiting the access to market for operators who do not belong to the unions of card issuers and against whom proceedings have been initiated. The President of UOKiK's decision was a subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set up at the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. On April 4, 2017 the Bank's extraordinary appeal was accepted by the Supreme Court in pre-court protocol for further examination and recognition.



## 17. Transactions with the key management personnel

PLN'000	31.12.2017		31.12.2016	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
<b>Loans granted</b>	<b>369</b>	<b>67</b>	<b>719</b>	<b>-</b>
<b>Deposits</b>				
Current accounts	12,428	2,808	10,078	4,216
Term deposits	4,888	950	5,227	1,000
	<b>17,316</b>	<b>3,758</b>	<b>15,305</b>	<b>5,216</b>

As at 30 June 2017 and 31 December 2016, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

All transactions of the Bank with members of the Management Board and the Supervisory Board are at arm's length.

Staff expenses for the first half of 2017 include costs of remuneration and awards for current and former members of the Management Board amounting to PLN 8,669 thousand (for the first half of 2016: PLN 9,439 thousand).

From the scope of work relationship, among contracts of employment between Bank and Members of Management Board, only in one case of one Member of Management Board the contract includes a provision on the financial compensation in case of its termination upon notice or pursuant to Article 53 of the Labour Code.

A separate non-competition agreement conducted with the Bank applies to each member of the Bank's Management Board. According to its provisions, in case of termination of employment in the Bank, in the period of 12 months (in case of one member of the Management Board – of 6 months) from the date of employment termination, the member of the Management Board is obligated to refrain from competitive activities against the Bank. Due to limitations mentioned above, the Bank will be obliged to pay the compensation to the member of the Management Board.

## 18. Related parties

The Bank is a member of Citigroup Inc. Citibank Overseas Investment Corporation, a subsidiary of Citibank N.A., which is the ultimate parent entity for the Bank.

Within its normal course of business activities, the Bank enters into transactions with related entities, in particular with entities of Citigroup Inc. and subsidiaries.

The transactions with related entities result from present Bank's activity and mainly include loans, deposits, guarantees and derivatives transactions.

Apart from the transactions described in this section, in the presented period neither the Bank nor the Bank's subsidiaries conducted any transactions with related entities, which would be individually or jointly significant. No transaction with related entities was concluded on terms other than market terms.

### Transactions with subsidiaries

The receivables and liabilities towards subsidiaries are as follows

PLN '000	30.06.2017	31.12.2016
<b>Receivables</b>	<b>3</b>	<b>5</b>
Overdraft facilities	<b>3</b>	<b>5</b>
<b>Receivables</b>		
Balance at the beginning of period	5	5
Balance at the end of period	3	5
<b>Deposits</b>		
Current accounts	98,433	55,279
Term deposits	351,360	201,314
	<b>449,793</b>	<b>256,593</b>
<b>Deposits</b>		
Balance at the beginning of period	256,593	286,895
Balance at the end of period	449,793	256,593



PLN '000	30.06.2017	31.12.2016
<b>Contingent liabilities granted</b>		
Credit lines granted	80,547	50,968

PLN '000	01.01. - 30.06. 2017	01.01. - 30.06. 2016
Interest and commission income	5,443	4,331
Interest and commission expense	1,266	1,963

On 30 June 2017 and 31 December 2016 there were no write-offs due to value loss of receivables and contingent liabilities granted.

In the first half of 2016 there was a reduction of the share capital in the Bank's subsidiaries. The share capital of the Handlowy Leasing Sp. z o.o. was reduced by PLN 106,991 thousand and the share capital of the Handlowy Investments S.A. was reduced by PLN 24,090 thousand.

### Transactions with other Citigroup Inc. subsidiaries

The receivables and liabilities towards Citigroup Inc. companies are as follows:

PLN '000	30.06.2017	31.12.2016
Receivables	242,844	89,369
Liabilities, including:	781,677	1,184,307
Deposits	285,431	204,911
Derivative		
Assets held-for-trading	421,599	823,853
Assets due to hedge derivative instruments	857	11,912
Liabilities held-for-trading	564,464	669,388
Liabilities on hedge derivatives	10,087	26,482
Contingent liabilities granted	390,436	264,347
Contingent liabilities received	65,124	68,290
Contingent derivative transactions (liabilities granted/received), including:	49,814,486	77,856,118
Interest rate instruments	32,809,026	68,946,263
Currency instruments	16,133,802	8,439,712
Securities transactions	721,891	195,488
Commodity transactions	149,767	274,655

PLN '000	01.01. - 30.06. 2017	01.01. - 30.06. 2016
Interest and commission income	20,972	11,374
Interest and commission expense	19,828	33,619

The Bank receives income and incurs costs on derivative transactions with entities of Citigroup Inc. in order to hedge market risk. These are back to back derivative transactions, opposite to transactions with Bank's other clients and closing Bank's own position that is related to the risk of market parameter (exchange rate, FX), whereas the stable part e.g. the margin cannot be closed due to the risk involved in those transactions. On 30 June 2017 net balance valuation of transactions on derivatives amounted to PLN (152,095) thousand (31 December 2016: PLN 139,895 thousand). The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation technique recommended by the "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulation this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore the Bank incurs costs and receives income from agreements between Citigroup Inc. entities and the Bank, regarding the provision of mutual services.

In the first half of 2016 the costs incurred and accrued (including VAT reflected in the Bank's costs) in the from the agreements were connected, in particular, with costs of services regarding the maintenance of Bank's information systems and advisory support and are presented in the General administrative expenses and other operating expenses; income was related to data processing and other services rendered by the Bank and is presented in the Other operating income.

PLN '000	01.01. – 30.06. 2017	01.01. – 30.06. 2016
General administrative expenses	98,792	94,172
Other operating income	4,712	5,289

In first half of 2017 there was a capitalization of investments regarding efforts over modification of functionality of IT Bank's systems'. Total value of payments to Citigroup Inc. units amounted to PLN 29,156 thousand (in 2016: PLN 11,229 thousand).

## 19. Other significant information

### Personal changes in the Bank's bodies

On 22 June 2017 Marek Belka and Marc Luet were appointed Members of the Supervisory Board by The Ordinary General Meeting of Shareholders for a three-year period, whereas Stephen R. Volk was appointed Member of the Supervisory Board for a subsequent three-year period.

Members of Management Board signatures

21.08.2017	Sławomir S. Sikora	The President of Management Board	
..... Date	..... Name	..... Position/Function	..... Signature
21.08.2017	Maciej Kropidłowski	Vice-president of Management Board	
..... Date	..... Name	..... Position/Function	..... Signature
21.08.2017	David Mouillé	Vice-president of Management Board	
..... Date	..... Name	..... Position/Function	..... Signature
21.08.2017	Barbara Sobala	Vice-president of Management Board	
..... Date	..... Name	..... Position/Function	..... Signature
21.08.2017	Witold Zieliński	Vice-president of Management Board Chief Financial Officer	
..... Date	..... Name	..... Position/Function	..... Signature
21.08.2017	Katarzyna Majewska	Member of Management Board	
..... Date	..... Name	..... Position/Function	..... Signature
21.08.2017	Czesław Piasek	Member of Management Board	
..... Date	..... Name	..... Position/Function	..... Signature