



Independent Registered Auditor's Report

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

Report on the consolidated financial statements

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

Management and Supervisory Board's Responsibility

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

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

Auditor's Responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in

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PricewaterhouseCoopers Sp. z o.o., Al. Armii Ludowej 14, 00-638 Warsaw, Poland, T: +48 (22) 746 4000, F: +48 (22) 742 4040, www.pwc.com

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



Independent Registered Auditor's Report (cont.)

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

order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements:

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

Report on Other Legal and Regulatory Requirements

Opinion on the Report on the Group's operations

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

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

With respect to our audit of the consolidated financial statements, our responsibility was to read the Report on the Group's operations and consider whether the information included in this Report complies with the regulations of article 49 of the Accounting Act and the Decree and is consistent with the information in the related consolidated financial statements. Our responsibility was also to consider, based on the knowledge of the Parent Company, the Group and their environment obtained during the audit of the financial statements and the consolidated financial statements, whether the Report on the Group's operations does not contain any material misstatements. Further, in accordance with article 111a par. 3 of the Banking Law, our responsibility was to audit the financial information included in section IV "Selected financial data of the Capital Group of Bank Handlowy

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Independent Registered Auditor's Report (cont.)

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

w Warszawie S.A.” of the Report on the Bank's and Group's operations. We carried out the audit in accordance with the scope described in paragraph *Auditor's Responsibility* above.

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

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

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

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

Adam Celiński

Key Registered Auditor
No. 90033

Warsaw, 21 March 2017

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Bank Handlowy w Warszawie S.A. Group

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

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

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

This report contains 17 consecutively numbered pages and consists of:

	Page
I. General information about the Group.....	2
II. Information about the audit.....	5
III. The Group's results, financial position and significant items of the consolidated financial statements	6
IV. The independent registered auditor's statements.....	15
V. Final information	17

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

I. General information about the Group

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

- e. As at 31 December 2016, the Parent Company's shareholders were:

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

- f. In the audited year, the Group's operations comprised, among others:

- accepting cash placements payable on demand or on maturity and maintaining accounts for these placements;
- maintaining other bank accounts;
- clearing cash transactions;
- granting loans and cash advances;
- granting and confirming bank guarantees and opening and confirming letters of credit;
- issuing payment cards and conducting transactions with the use of such cards;
- conducting derivative transactions;
- brokerage activity;
- leasing activity,
- investing activity.

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

I. General information about the Group (cont.)

g. As at 31 December 2016, the Bank Handlowy w Warszawie S.A. Group comprised the following entities:

Name	Nature of equity relationship (indirect and direct interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance sheet date*
Bank Handlowy w Warszawie S.A.	Parent Company	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2016
Dom Maklerski Banku Handlowego S.A.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2016
Handlowy-Leasing Sp. z o.o.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2016
Handlowy Investments S.A.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Société coopérative	audit in progress	28 February 2017*
PPH Spomasz Sp. z o.o. in liquidation	Subsidiary (100.00%)	Full	Not audited	-	31 December 2016
Handlowy-Inwestycje Sp. z o.o.	Subsidiary (100.00%)	Equity	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2016

* In case of Handlowy Investments S.A., which is an entity that prepares its financial statements as at balance sheet date other than the balance sheet date of consolidated financial statements of the Group, relevant requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union were applied.

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

I. General information about the Group (cont.)

h. During the audited year, the Management Board of the Parent Company comprised:

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

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

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

II. Information about the audit

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

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

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

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

III. The Group's results, financial position and significant items of the consolidated financial statements

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

			Change		Structure	
	31.12.2016 PLN '000	31.12.2015 PLN '000	PLN '000	(%)	31.12.2016 (%)	31.12.2015 (%)
ASSETS						
Cash and balances with Central Bank	665,755	2,170,237	(1,504,482)	(69.3)	1.5	4.4
Amounts due from banks	587,087	757,103	(170,016)	(22.5)	1.3	1.5
Financial assets held-for-trading	3,781,405	6,987,284	(3,205,879)	(45.9)	8.4	14.1
Hedging derivatives	12,244	1,795	10,449	582.1	-	-
Debt securities available-for-sale	19,072,371	18,351,259	721,112	3.9	42.2	37.1
Equity investments valued at equity method	10,471	7,768	2,703	34.8	-	-
Equity investments available-for-sale	22,842	67,744	(44,902)	(66.3)	0.1	0.1
Amounts due from customers	18,860,053	18,975,471	(115,418)	(0.6)	41.7	38.4
Tangible fixed assets	342,971	354,080	(11,109)	(3.1)	0.8	0.7
Intangible assets	1,350,861	1,371,879	(21,018)	(1.5)	3.0	2.8
Current income tax receivables	13,901	20,673	(6,772)	(32.8)	-	-
Deferred income tax asset	198,383	161,586	36,797	22.8	0.4	0.3
Other assets	289,644	277,985	11,659	4.2	0.6	0.6
Non-current assets held-for-sale	1,928	1,928	-	-	-	-
TOTAL ASSETS	45,209,916	49,506,792	(4,296,876)	(8.7)	100.0	100.0

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

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

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

			Change		Structure	
	31.12.2016 PLN '000	31.12.2015 PLN '000	PLN '000	(%)	31.12.2016 (%)	31.12.2015 (%)
LIABILITIES						
Amounts due to banks	2,310,742	6,963,561	(4,652,819)	(66.8)	5.1	14.1
Financial liabilities held-for-trading	1,305,614	3,247,523	(1,941,909)	(59.8)	2.9	6.6
Hedging derivatives	39,897	112,383	(72,486)	(64.5)	0.1	0.2
Amounts due to customers	33,936,511	31,586,303	2,350,208	7.4	75.0	63.8
Provisions	22,856	23,494	(638)	(2.7)	0.1	-
Other liabilities	803,846	722,872	80,974	11.2	1.8	1.5
TOTAL LIABILITIES	38,419,466	42,656,136	(4,236,670)	(9.9)	85.0	86.2
EQUITY	6,790,450	6,850,656	(60,206)	(0.9)	15.0	13.8
TOTAL LIABILITIES AND EQUITY	45,209,916	49,506,792	(4,296,876)	(8.7)	100.0	100.0

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

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

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

			Change		Structure	
	2016 PLN '000	2015 PLN '000	PLN '000	(%)	2016 (%)	2015 (%)
Interest and similar income	1,258,604	1,232,413	26,191	2.1	52.1	51.1
Interest expense and similar charges	(255,033)	(255,813)	780	(0.3)	15.5	15.8
Net interest income	1,003,571	976,600	26,971	2.8		
Fee and commission income	639,348	709,435	(70,087)	(9.9)	26.4	29.4
Fee and commission expense	(78,119)	(78,085)	(34)	-	4.7	4.8
Net fee and commission income	561,229	631,350	(70,121)	(11.1)		
Dividend income	8,050	7,382	668	9.0	0.3	0.3
Net income on trading financial instruments and revaluation	347,197	293,118	54,079	18.4	14.4	12.1
Net gain on debt investment securities available-for-sale	44,746	145,246	(100,500)	(69.2)	1.9	6.0
Net gain on capital investment instruments available-for-sale	95,913	2,232	93,681	4,197.2	4.0	0.1
Net gain on hedge accounting	9,553	7,949	1,604	20.2	0.4	0.3
Net other operating income/(expense)	11,205	(12,170)	23,375	(192.1)	0.5	0.7
General administrative expenses	(1,132,301)	(1,207,875)	75,574	(6.3)	68.6	74.4
Depreciation expense	(69,922)	(70,422)	500	(0.7)	4.2	4.3
Profit on sale of other assets	116	102	14	13.7	-	-
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	(45,768)	17,202	(62,970)	(366.1)	2.8	0.7
Operating profit	833,589	790,714	42,875	5.4		
Share in net profits of entities valued at equity method	50	61	(11)	(18.0)	-	-
Tax on some financial institutions	(69,311)	-	(69,311)	-	4.2	-
Profit before tax	764,328	790,775	(26,447)	(3.3)		
Income tax expense	(162,748)	(164,356)	1,608	(1.0)		
Net profit	601,580	626,419	(24,839)	(4.0)		
Total income	2,414,782	2,415,140	(358)	-	100.0	100.0
Total expense	(1,650,454)	(1,624,365)	(26,089)	1.6	100.0	100.0
Profit before tax	764,328	790,775	(26,447)	(3.3)		

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Bank Handlowy w Warszawie S.A. Group
Registered auditor's report on the audit of the consolidated financial
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III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

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

			Change	
	2016 PLN '000	2015 PLN '000	PLN '000	(%)
Net profit	601,580	626,419	(24,839)	(4.0)
Other comprehensive income that may be reclassified to the income statement:				
Net valuation of financial assets available-for-sale	(51,230)	(216,486)	165,256	(76.3)
Foreign exchange differences	753	(6)	759	(12,650.0)
Other comprehensive income that may not be reclassified to the income statement:				
Net actuarial profits/(losses) on specific services program valuation	278	886	(608)	(68.6)
Other comprehensive income after tax	(50,199)	(215,606)	165,407	(76.7)
Total comprehensive income for the period	551,381	410,813	140,568	34.2



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

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

Selected ratios characterizing the Group's financial position and results

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

	2016	2015
Profitability ratios		
Return on equity (net profit / average net assets) (1)	8.8%	8.8%
Return on assets (net profit / average assets) (1)	1.3%	1.3%
Interest margin (interest income / average interest-bearing assets) – (interest expense / average interest-bearing liabilities) (1) (3)	2.2%	2.0%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (1) (3)	2.8%	2.6%
C/I ratio (general administrative expenses and depreciation expense / profit/(loss) on banking activities) (2)	57.8%	62.3%
Cost of borrowings (interest expense / average interest-bearing liabilities) (1)	0.6%	0.6%
	31.12.2016	31.12.2015
Asset quality ratios		
Impaired loans and advances to customers to gross loans and advances to customers	3.3%	3.6%
Provision coverage of not impaired loans and advances	0.4%	0.3%
Provision coverage of impaired loans and advances	76.4%	74.4%
Other ratios		
Common Equity Tier I Capital ratio (4)	17.4%	17.1%
Common Equity Tier I (PLN'000)	4,796,869	4,781,008
Total regulatory capital requirement (PLN'000)	2,199,922	2,238,956

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

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

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



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

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

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

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

- At the end of the financial year, the Group's total assets amounted to PLN 45,209,916 thousand. During the year total assets decreased by PLN 4,296,876 thousand, i.e. by 8.7%.
- At the end of 2016 assets were primarily financed by amounts due to customers. As at 31 December 2016 the amounts due to customers amounted to PLN 33,936,511 thousand and represented 75.0% of total liabilities and equity - an increase compared to the balance as at 31 December 2015 by 11.2 p.p. An increase of amounts due to customers compared to the previous year of PLN 2,350,208 thousand (i.e. 7.4%) resulted mainly from increase of deposits from financial sector entities by PLN 1,314,994 thousand and deposits from non-financial sector by PLN 1,228,472 thousand.
- As at the balance sheet date, amounts due to banks amounted to PLN 2,310,742 thousand, which represented a decrease by PLN 4,652,819 thousand, i.e. by 66.8% compared to the previous year. This change was mainly due to a decrease of term deposits (by PLN 3,957,173 thousand, i.e. by 88.7%) and a decrease of liabilities due to sold securities under repurchase agreements (by PLN 1,411,084 thousand, i.e. 86.9%), Simultaneously, the balance of liabilities on current accounts has increased (by PLN 785,607 thousand, i.e. by 115.3%). The balance of term deposits from related entities has decreased by PLN 3,563,657 thousand, i.e. by 93.8% compared to the end of previous year.
- As at 31 December 2016 total equity amounted to PLN 6,790,450 thousand. A decrease of total equity by PLN 60,206 thousand, i.e. by 0.9% compared to the previous year was mainly due to:
 - payment of dividend by a Parent Company from the profit in the amount of PLN 611,587 thousand;
 - net profit generated by the Group in the amount of PLN 601,580 thousand in the audited financial year;
 - a decrease of revaluation reserve due to valuation of financial assets available-for-sale (net) by PLN 51,230 thousand.



Translation note:

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

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

- As at 31 December 2016, the net balance of amounts due from customers amounted to PLN 18,860,053 thousand, which was a decrease by PLN 115,418 thousand, i.e. by 0.6% compared to the previous year. Bank receivables represented 99.7% of the net balance of amounts due from customers. As at the end of 2016, the gross loan portfolio amounted to PLN 19,423,474 thousand and comprised mainly of loans and advances due from non-financial sector entities in the gross amount of PLN 16,051,239 thousand, unlisted debt securities from financial sector entities in the gross amount of PLN 1,199,671 thousand (securitization securities) and purchased receivables from non-financial sector entities in the gross amount of PLN 1,116,054 thousand. A decrease of amounts due from customers was mainly due to a drop of receivables from financial sector entities subject to securities sale and repurchase agreements by the gross amount of PLN 1,356,247 thousand (no balance at the end of 2016).
- The balance of impairment allowances for amounts due from customers decreased by PLN 21,985 thousand, i.e. by 3.8% and as at 31 December 2016 amounted to PLN 563,421 thousand (impairment allowances for amounts due from Bank constituted 99.3% of total balance). This drop resulted mainly from a decrease in the impairment of individual loss (a decrease of PLN 40,727 thousand, i.e. by 13.7%). As at 31 December 2016, the share of impaired loans and advances in the total balance of loans and advances decreased by 0.3 p.p. and amounted to 3.3%. The coverage ratio of impairment allowances for impaired loans and advances amounted to 76.4% and increased by 2.0 p.p. compared to the end of 2015.
- As at the end of the audited year, amounts due from banks amounted to PLN 587,087 thousand and decreased by PLN 170,016 thousand, i.e. by 22.5% mainly due to a decrease of amounts in current accounts (a decrease by the gross amount of PLN 175,546 thousand) and a decrease in the balance of deposits pledged as collateral of derivative instruments and stock market transactions (a decrease by the gross amount of PLN 127,472 thousand), with a simultaneous increase in the balance of receivables due to purchased securities with a repurchase agreement (a growth by the gross amount of PLN 203,117 thousand).
- As at 31 December 2016, debt securities available-for-sale amounted to PLN 19,072,371 thousand and represented 42.2% of total assets. A growth of this balance by PLN 721,112 thousand, i.e. 3.9% was due to the purchase of portfolio of bills issued by the National Bank of Poland in the amount of PLN 2,239,715 thousand. At the same time, portfolio of banks issued by other banks decreased by PLN 1,442,623 thousand.
- As at 31 December 2016, financial assets held-for-trading amounted to PLN 3,781,405 thousand and comprised mainly Treasury bonds in the amount of PLN 2,546,247 thousand and derivative financial instruments in the amount of PLN 1,167,134 thousand. The balance of the Treasury bonds decreased by PLN 1,733,393 thousand, i.e. by 40.5% and derivative instruments valuation decreased by PLN 1,099,998 thousand, i.e. by 48.5%.



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III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

- The balance of the valuation of derivatives as at 31 December 2016 decreased on the assets side (financial assets held-for-trading) as well as the liabilities side (financial liabilities held-for-trading) primarily due to drop in the value and quantity of open (at the balance sheet date) interest rate swaps (a decrease of PLN 1,057,803 thousand, i.e. by 69.0% on the assets side and of PLN 1,105,383 thousand, i.e. by 67.5% on the liabilities side). The drop in the value and quantity of interest rate swaps was mainly due to fact that the Bank runs a compression of derivative transaction portfolios' periodically according to recommendation of "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation).
- In the first half of 2016 the Management Board of the Bank has received the information regarding final allocation of settlement transactions of the Visa Europe Limited takeover by Visa Inc. As at 31 December 2016 the net amount of preference shares after discount amounted to PLN 18,965 thousand and was presented as the amount of financial assets classified to the Level III of fair value.
- As at 31 December 2016 revaluation reserve had negative value and amounted to PLN 214,843 thousand (at the end of 2015 revaluation reserve had also negative value and amounted to PLN 163,613 thousand). A decrease in revaluation reserve was mainly due to a change in revaluation of financial assets available-for-sale.
- The profit before tax for the audited year amounted to PLN 764,328 thousand and was lower than the profit before tax for 2015 by PLN 26,447 thousand, i.e. by 3.3%. In the amount of Group's profit, profit before tax of the Bank constituted 95.8% of the amount, i.e. PLN 732,135 thousand. The profit before tax comprised mainly of: net interest income of PLN 1,003,571 thousand, net fee and commission income of PLN 561,229 thousand and net income on trading financial instruments and revaluation of PLN 347,197 thousand, reduced mainly by general administrative expenses of PLN 1,132,301 thousand. In 2016 tax on some financial institutions amounted to PLN 69,311 thousand (no charge in 2015).
- Net interest income amounted to PLN 1,003,571 thousand and increased by PLN 26,971 thousand, i.e. by 2.8% compared to the previous year. A growth of the net interest income was due to an increase of interest and similar income by PLN 26,191 thousand. At the same time, interest expense and similar charges decreased by PLN 780 thousand compared to the previous year. The main changes in interest and similar income has occurred in interest income due to amounts from customers (an increase by PLN 59,032 thousand, i.e. by 7.6%) and income due to debt securities held-for-trading (a decrease by PLN 25,265 thousand, i.e. 34.4%).
- Net fee and commission income amounted to PLN 561,229 thousand in the audited year and was PLN 70,121 thousand, i.e. 11.1% lower compared to the previous year. This drop was mainly due to a decrease of fee and commission income by PLN 70,087 thousand, which was mainly a result of a decrease of income from insurance and investment products (agency) by PLN 40,092 thousand and income from payment and credit cards by PLN 29,089 thousand. At the same time, fee and commission expense increased by PLN 34 thousand.

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

III. The Group's results, financial position and significant items of the consolidated financial statement (cont.)

- General administrative expenses amounted to PLN 1,132,301 thousand in the audited year (including administrative expenses which amounted to PLN 579,583 thousand and staff expenses which amounted to PLN 552,718 thousand) and decreased by PLN 75,574 thousand, i.e. by 6.3% compared to the previous year. A decrease of the balance of discussed position was mainly due to a decrease of Bank Guarantee Funds costs by PLN 55,864 thousand. Staff expense decreased by PLN 13,045 thousand (i.e. by 2.3%).
- Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted were negative and amounted to PLN 45,768 thousand (in 2015 they were positive and amounted to PLN 17,202 thousand).
- As a result, in the audited year the Group generated a net profit of PLN 601,580 thousand, which was lower by PLN 24,839 thousand, i.e. by 4.0% compared to the previous year.



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

IV. The independent registered auditor's statements

- a. The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The consolidation of equity items were carried out properly in all material respects.
- d. The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- e. The elimination of unrealized gains/losses of consolidated entities included in the book value of assets and in respect of dividend payments was carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- f. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.
- g. The consolidated financial statements of the Group for the year from 1 January to 31 December 2015 were approved by Resolution No. 5/2016 passed by the General Shareholders' Meeting of the Parent Company on 21 June 2016 and filed with the National Court Register in Warsaw on 27 June 2016.
- h. During the audit performed we have not identified any significant instances of Bank's non-compliance with banking regulatory norms during the period from 1 January 2016 to the day of issuance of this report. As at 31 December 2016, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolutions of Polish Financial Supervisory Authority and the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, included banking regulatory norms in relation, among others, to the following:
 - concentration of credit risk,
 - concentration of investments in shares,
 - classification of loans and guarantees to risk groups and creation of provisions for the risk associated with activities of banks,
 - liquidity measures,
 - level of obligatory reserve,
 - capital adequacy.

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

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

- i. As at the balance sheet date the total capital ratio (TCR) amounted to 17.44% and was correctly determined in accordance with CRR. This statement is based on recalculation of the quotient of own funds amounting PLN 4,796,869 thousand divided by risk weighted assets amounting to PLN 27,499,023 thousand as per COREP reporting prepared by the Bank as at the balance sheet date.
- j. The notes to the consolidated financial statements, which include the introduction and additional notes and explanations present all the significant information in accordance with IFRS as adopted by the European Union.
- k. The information in the Report on Group's operations for the year from 1 January to 31 December 2016 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a member state (Journal of Laws of 2014, item 133 as amended) and is consistent with that presented in the consolidated financial statements.

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

V. Final information

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

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

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

Adam Celiński

Group Registered Auditor, Key Registered Auditor
No. 90033

Warsaw, 21 March 2017

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