citi handlowy

REPORT ON ACTIVITIES OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. IN 2015

MARCH 2016

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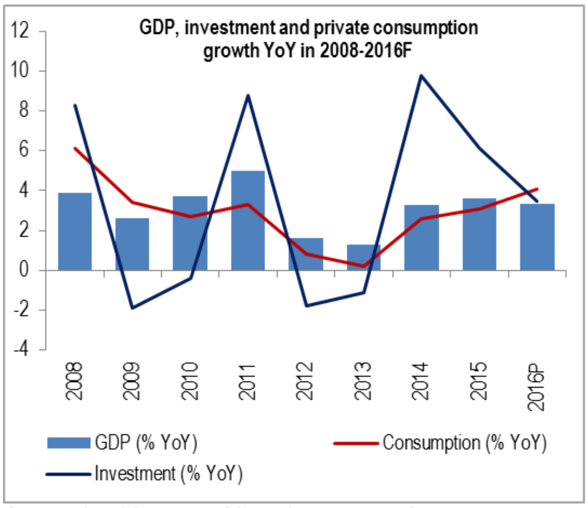
I. Poland's economy in 2015

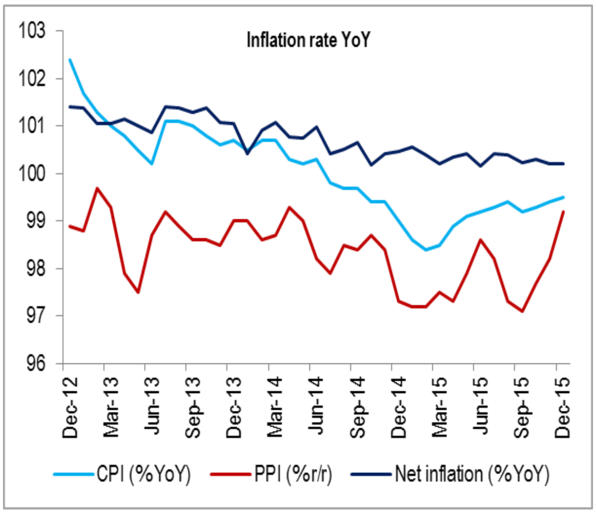
1. Main macroeconomic trends



Source: Chief Statistical Office, Citi Handlowy forecast

According to Chief Statistical Office data, gross domestic product increased in 2015 by 3.6% as against 3.4% in 2014. The rate of economic growth in each quarter was relatively stable and at the same time, clearly higher than in the previous three years. Domestic demand was a key factor contributing to the growth of the Polish economy, while foreign trade had a slight positive effect on GDP. A deep slowdown in some emerging economies and concerns about the stability of the euro zone did not have a strong impact on the situation in the country, and the Polish economy benefited from very low oil prices on the global markets.

Conditions on the labor market further improved, and the unemployment rate declined at the end of 2015 to 9.8%. A moderate pace of employment growth continued while the number of new job openings rose to record highs. Average salaries in the business sector increased by 3.5% YoY in 2015 despite a very low dynamics of consumer prices. The improvement on the labor market was driven by a high rate of economic growth and a relatively weak zloty which contributed to the growth of export orders.

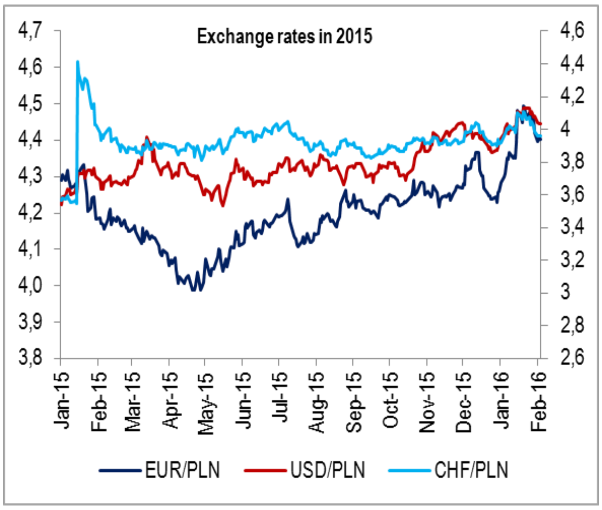


Source: Chief Statistical Office, own calculations

Prices of consumer goods and services in 2015 declined in average by 0.9% YoY after stabilization in 2014. The main factor underlying a protruding deflation in Poland was the decline in food prices by 1.8% YoY and a decline in fuel prices by 13.5%. Despite an economic revival, strong domestic demand and improving conditions on the labor market a demand-driven pressure on price growth was very limited. Thus, inflation remained well below the inflation target set by the Monetary Policy Council.

In response to the decline in inflation the Monetary Policy Council decided in March 2015 to reduce its reference interest rate by 0.5 percentage point to a record low level of 1.5%. In subsequent months the monetary authorities kept the interest rates unchanged without any interventions on the forex market.

2. Money and forex



Source: Bloomberg

In 2015, the Polish zloty remained relatively stable against the euro and slightly weakened against the US dollar. The trend toward a weakening of the zloty and other emerging market currencies against the US dollar was clearly noticeable after April 2015 together with a rise in market expectations for interest rate hikes in the United States. The prospect of rate hikes by the US Federal Reserve Bank (Fed) contributed to the outflow of capital from emerging markets, leading to a temporarily increased volatility on the financial markets. 2015 also brought a clear strengthening of the Swiss franc against the Polish zloty in connection with the decision of the Swiss Central Bank which in January decided to limit the scale of foreign exchange interventions.

As a result of these changes during the year EUR/PLN rate remained virtually unchanged and at the end of 2015 was 4.26 while USD/PLN increased by 11% to 3.90 and CHF/PLN rose by 11% to 3.94.

In view of the reduction in interest rates, money market rates decreased in 2015. 3M WIBOR rate was at the end of the year 1.72% and was about 34 basis points lower than a year earlier. The Central Bank's actions also led to a fall in 2-year bond yields by 16 basis points to the level of 1.62%. 10-year bonds remained under the influence of global factors and increased during the year by about 42 basis points to the level of 2.94%.

3. Capital market

2015 was not successful for investors with exposure to the domestic stock market. Thanks to record low interest rates and the government bond purchase program by the European Central Bank, the positive sentiment remained only in the first quarter of 2015. The following months brought a clear deterioration in sentiment, among others due to the prospects of Greece leaving the Euro zone, a slowdown in the Chinese economy, or the uncertainty associated with the increases in interest rates in the United States. Not without significance were also local factors, such as: regulatory changes in the banking sector (banking tax, unexplained issue of foreign currency loans), the prospect of involvement of energy companies in the coal sector, as well as the lack of a significant influx of new money to pension and investment funds.

As a result the widest market index, WIG, lost 9.6% as compared to the end of 2014. Under the greatest pressure were the companies with the largest capitalization whose index, WIG20, dropped 19.7% YoY. On the other hand, the index of the smallest companies, sWIG80, reported a solid growth by 9.1% YoY. A relative good performer was also the index of medium-sized companies which improved by about 2.4% YoY.

Among the sectorial sub-indices, in the past year, the highest rate of return compared with the end of 2014 was disclosed by the index WIG-Chemistry (+44.6%); very solid rates of return were reported by indexes of food companies (+38.6%), construction companies (+36.5%) and fuel companies (+32.2%). On the other hand, a significant sell-off hit sectors which have a dominant share in the WIG20. Raw material companies lost 43.8% of their value YoY, the index of energy companies dropped by 31.4% YoY, whereas listings of the banks decreased by 23.5% in relation to the level at the end of 2014.

In the last 12 months, shares of 30 new companies appeared on the main market of the WSE (including 13 transferred from the New Connect) which means an increase by 2 companies in relation to 2014. In turn, in value terms the primary market recorded a solid improvement, the total value of the deals reached over PLN 1.94 billion (as against PLN 1.26 billion in the preceding year). At the end of December, shares of 487 companies were traded (including 54 foreign ones), while in the same period of 2014 there were 471 companies (of which 51 were foreign). The total market value of all listed companies shrank by 14% YoY to PLN 1,083 billion.

Stock market indices, as at 31 December 2015

Index	2015	Change (%)	2014	Change (%)	2013
WIG	46,467.38	(9.6%)	51,416.08	0.3%	51,284.25
WIG-PL	47,412.44	(10.2%)	52,805.46	0.8%	52,377.63
WIG-DIV	958.66	(16.8%)	1,151.73	1.8%	1,131.43
WIG20	1,859.15	(19.7%)	2,315.94	(3.5%)	2,400.98
WIG20TR	3,054.29	(17.0%)	3,680.89	0.5%	3,662.04
WIG30*	2,075.51	(16.6%)	2,487.52	(2.0%)	2,537.53
mWIG40	3,567.05	2.4%	3,483.45	4.1%	3,345.28
sWIG80	13,211.23	9.1%	12 108,06	(15,5%)	14 336,82
Sector sub-indices					
WIG-Banks	6,086.60	(23.5%)	7,960.97	(0.7%)	8,014.15
WIG-Construction	2,926.28	36.5%	2,143.29	(5.0%)	2,257.09
WIG-Chemicals	16,458.51	44.6%	11,383.76	(2.3%)	11,645.90
WIG-Developers	1,513.35	12.9%	1,340.47	(9.8%)	1,486.67
WIG-Energy	2,928.40	(31.4%)	4,268.12	23.6%	3,453.73
WIG-IT	1,611.73	16.2%	1,386.48	1.7%	1,363.92
WIG-Media	3,942.07	2.6%	3,840.32	10.5%	3,476.78
WIG-Fuel	4,468.32	32.2%	3,381.16	5.2%	3,215.11
WIG-Food	3,420.99	38.6%	2,468.65	(24.0%)	3,249.28
WIG-Commodities	1,956.85	(43.8%)	3,481.62	(15.5%)	4,118.45
WIG-Telecoms	807.99	(12.6%)	924.52	(8.0%)	1,005.35

Source: WSE, Dom Maklerski Banku Handlowego S.A.

Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2015

	2015	Change (%)	2014	Change (%)	2013
Shares (PLN million)*	450,574	(3.3%)	465,730	(9.1%)	512,293
Bonds (PLN million)	1,808	(8.8%)	1,983	(40.0%)	3,305
Futures ('000 contracts)	15,334	(14.8%)	18,004	(23.8%)	23,612
Options ('000 contracts)	876	(8.6%)	958	(40.8%)	1,617

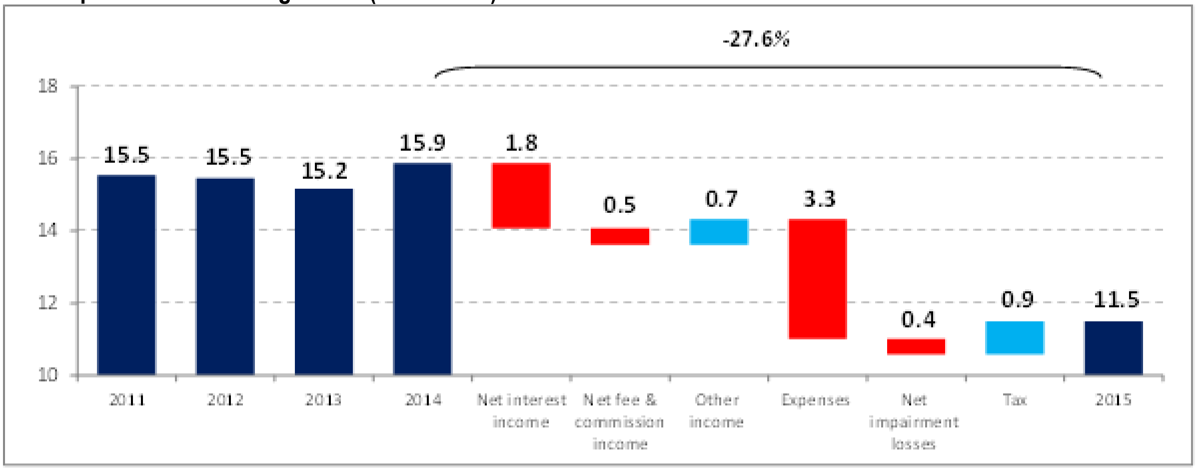
*Source: WSE, Dom Maklerski Banku Handlowego S.A, * including session and block transactions.*

2015 brought a further decrease in the activity of investors on the Warsaw Stock Exchange. In the segment of equity securities the trading value slightly exceeded PLN 450 billion which means a decrease of 3.3% as against the similar period of 2014.

Turnovers in the bond segment were by 8.8% YoY lower and amounted to PLN 1.8 billion. The volume of trading in forward and futures contracts shrank on an annual basis by about 14.8% to the level of 15.3 million units. The volume of trading in options also decreased by 8.6% YoY, reaching the level of 876,000 units.

4. Banking sector

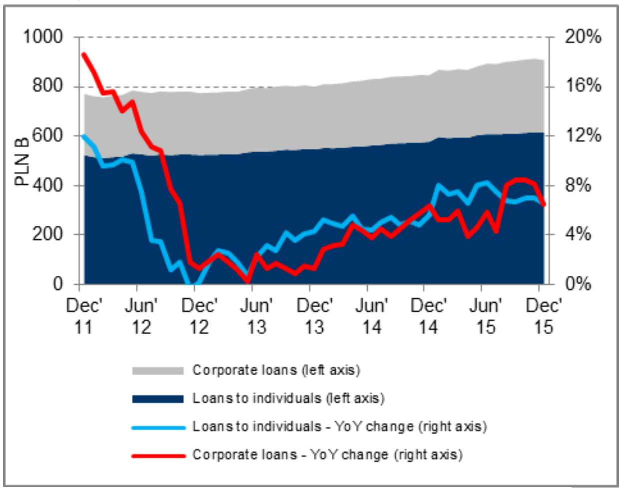
Net profit of the banking sector (PLN billion)



Source: KNF, own calculations

According to the PFSA, net profit of the banking sector in 2015 fell compared to the last year by about 27.6% (PLN -4.4 billion) to the level of PLN 11.5 billion which is the worst result since 2010. One of the most important reasons for smaller profits was a deterioration of the result on interests by 4.8% YoY (PLN -1.8 billion). Also the result on fees and commissions fell below the last year's level by about 3.3% YoY (PLN -456 million), whereas the result on other banking operations rose by 9.3% YoY (PLN +704 million). As a result, the total revenue of the banking sector decreased by PLN 1.6 billion to PLN 57.0 billion. A negative impact on the net result of the banking sector came from a high growth in expenses by 11.1% YoY (+ PLN 3.3 billion), due to raising contributions to the BFG and covering the guaranteed deposits held in the accounts of one of the cooperative banks. Consequently, the effectiveness of the sector as measured by the cost/income ratio deteriorated. The ratio rose from 51% in 2014 to 58% in 2015. Net impairment write-offs increased by 4.9% YoY (PLN -429 million) despite improvements in the quality of the loan portfolio defined by the NPL ratio (by 0.6 percentage points YoY to 6.4%). The most important improvement was noted for the portfolio of corporate loans for which the ratio of non-performing loans (NPL) decreased during the year by -1.5% percentage points to the level of 9.8% at the end of December 2015. The improvement of the ratio took place both in the area of loans granted to large enterprises (-1.7 percentage points YoY to the level of 7.6%) as well as loans for small and medium-sized enterprises (-1.2 percentage points YoY to the level of 11.5%). In the portfolio of loans granted to households the NPL ratio also improved, but to a much smaller extent than in the case of enterprises (-0.3 percentage points to the level of 6.2%). The improvement was also reported in the area of consumer loans (-0.6 percentage points to the level of 12.2%) and mortgage loans (by 0.2 percentage points to 2.9%). Only real estate loans denominated in foreign currencies experienced a performance deterioration by 0.3 percentage points to 3.1%.

Loans granted to corporate and individual clients

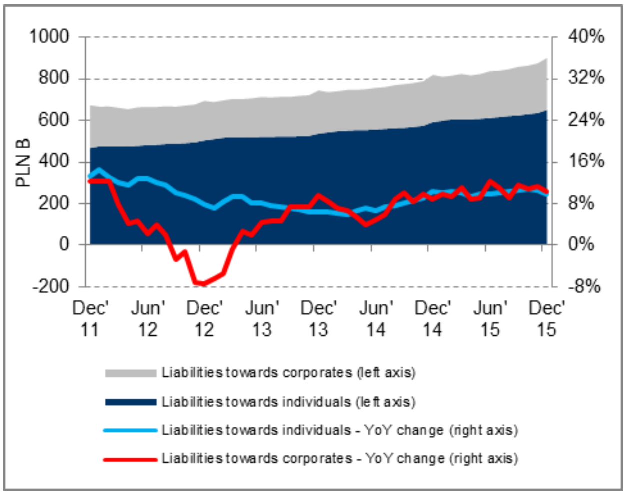


Source: National Bank of Poland, own calculations

The growth rate of loans to the non-financial sector gradually improved throughout the year and reached 6.9% YoY at the end of December 2015 (PLN +65.7 billion). The value of loans granted to enterprises increased by 8.5% YoY and stood at PLN 291.8 billion as at the end of 2015. Taking into account the purpose of the loans contracted by enterprises, the highest dynamic was reported for investment loans (+ 10.1% YoY), a strong growth was also noticeable for current loans (+ 8.1% YoY at the end of 2015). However, by the original term the highest dynamics was disclosed by long-term loans, granted for a period of more than five years (+8.6% YoY), while volumes of short-term loans, granted for a period of less than a year and medium-term loans, granted for a period from one to five years rose respectively to 7.9% YoY and 7.4% YoY.

In the category of loans granted to households there were volume increases too (5.6% YoY, PLN + 30.7 billion to the level of PLN 577.8 billion). It should be also noted that the increase was due to a recovery in the category of real estate loans (6.0% YoY, PLN + 20.3 billion to PLN 360.8 billion) as well as a slightly weaker growth in the category of consumer loans (4.5% YoY., PLN +5.9 billion to PLN 137.4 billion). Considering the impact of the weakening of the zloty against the major currencies, the annual growth rate of real estate loans was somewhat lower and amounted to 3.7% YoY. Particularly dynamic was the growth of the market of the PLN-denominated real estate loans whose value surged by 13.5% YoY (PLN +23.5 billion).

Corporate and individual deposits

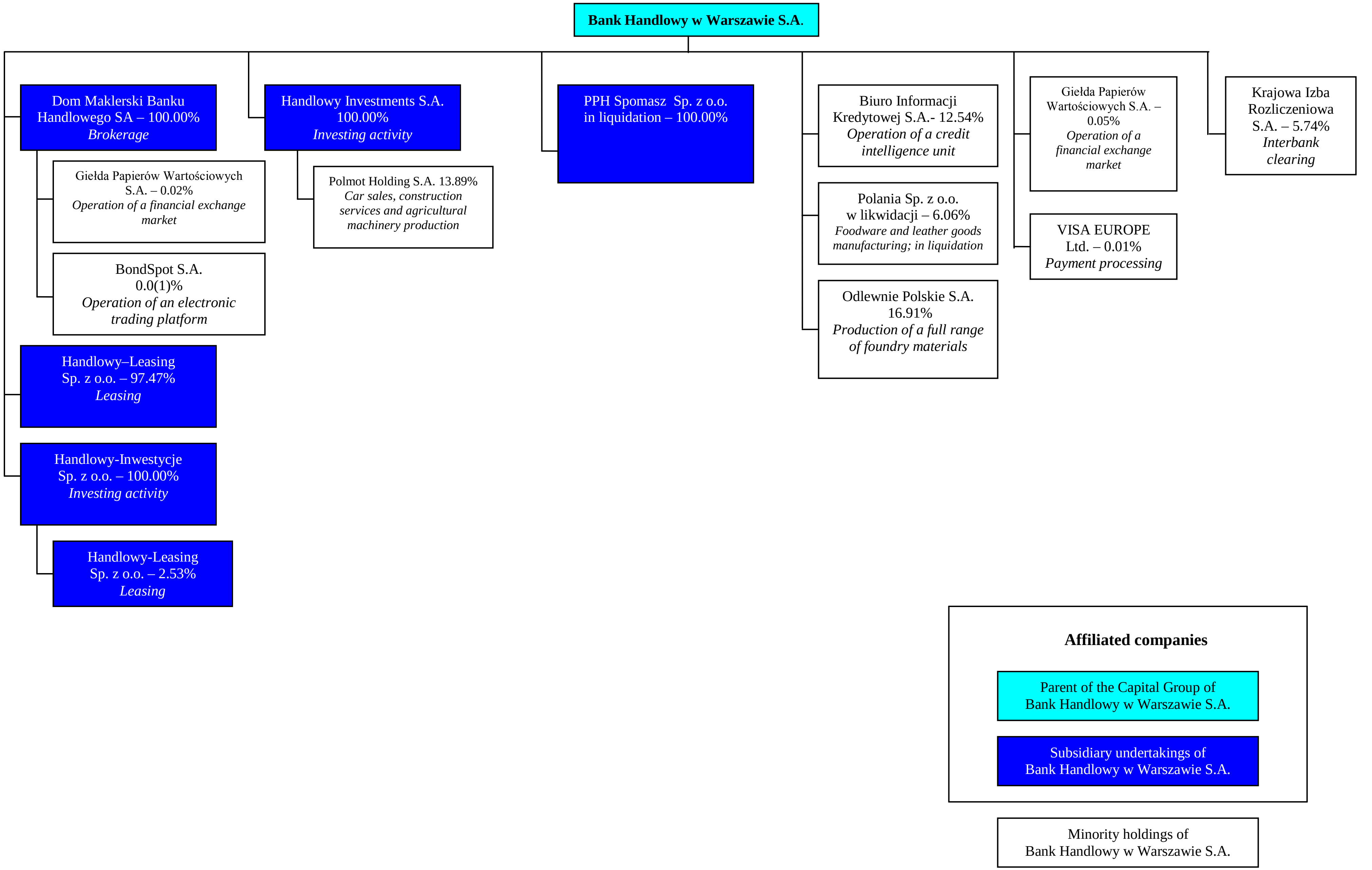


Source: National Bank of Poland, own calculations

Corporate deposits increased by 10.3% YoY (PLN +23.4 billion to PLN 250.1 billion). This growth was largely due to a still high momentum of the current deposits (+17.5% YoY to PLN 146.0 billion). Term deposits rose by 1.6% YoY (volume increase to PLN 104.1 billion) as at the end of December. Deposits of households also reported a significant increase in volume. Their balance grew by 9.7% YoY (PLN +53.5 billion to PLN 602.9 billion). Just like for corporate deposits, the growth was mainly driven by the current deposits (increase of 13.4% YoY, PLN +35.0 billion to PLN 295.6 billion) and to a lesser extent, by the term deposits whose volume increased by 6.4% YoY (PLN +18.5 billion to PLN 307.2 billion).

II. Organisational chart of the Capital Group of Bank Handlowy w Warszawie S.A.

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 31 December 2015; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA – 100.00% *Brokerage*
Giełda Papierów Wartościowych S.A. – 0.02% *Operation of a financial exchange market*
BondSpot S.A. 0.0(1)% *Operation of an electronic trading platform*
Handlowy–Leasing Sp. z o.o. – 97.47% *Leasing*
Handlowy-Inwestycje Sp. z o.o. – 100.00% *Investing activity*
Handlowy-Leasing Sp. z o.o. – 2.53% *Leasing*
Handlowy Investments S.A. 100.00% *Investing activity*
Polmot Holding S.A. 13.89% *Car sales, construction services and agricultural machinery production*
PPH Spomasz Sp. z o.o. in liquidation – 100.00%
Biuro Informacji Kredytowej S.A.- 12.54% *Operation of a credit intelligence unit*
Polania Sp. z o.o. w likwidacji – 6.06% *Foodware and leather goods manufacturing; in liquidation*
Odlewnie Polskie S.A. 16.91% *Production of a full range of foundry materials*
Giełda Papierów Wartościowych S.A. – 0.05% *Operation of a financial exchange market*
VISA EUROPE Ltd. – 0.01% *Payment processing*
Krajowa Izba Rozliczeniowa S.A. – 5.74% *Interbank clearing*
Affiliated companies
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiary undertakings of Bank Handlowy w Warszawie S.A.
Minority holdings of Bank Handlowy w Warszawie S.A.

III. The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. (the "Group") consists of a parent company and subsidiaries.

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	6,782,466
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	114,403
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	139,127
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	18,633
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	in liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2015*
*** Including indirect participations*
**** Pre-audit data*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Handlowy-Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	10,893

**** Pre-audit data*

IV. Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Major Developments in 2015

In 2015, the Bank had to cope with a demanding market environment (historically low interest rates), difficult regulatory conditions (reduction in interchange fees) and a large volatility of financial assets on the global financial markets.

In the past year, the Group concentrated its activities on strategic areas which were reflected in the following achievements and events:

- Dynamic **growth in lending activities** at + 13% YoY (institutional clients +18% and individual clients +5%);
- **High efficiency** – key performance indicators remained on high levels, better than the sector averages:
  - Return on assets (ROA) at 1.3% (sector: 0.7%);
  - Return on tangible equity (ROTE) at 12.5% (sector: 6.9%);
- Consistent **cost discipline** – decrease in operating expenses and in amortization and depreciation in 2015 by 5% (after excluding a one-time fee to the Bank Guarantee Fund for the payment of guaranteed funds to depositors of the bankrupt cooperative bank);
- **Low risk costs**, mainly as a result of a good quality of the loan portfolio and the sale of the portfolio of impaired credit card and cash loans:
  - Credit risk costs in 2015 (calculated as net impairment write-offs to non-financial sector loans) at a level similar to 2014 (i.e. 0.11%);
  - A record improvement in the ratio of non-performing loans (NPL) from 4.9% in 2014 to 3.2% at the end of 2015;
- **Capital safety** of the Bank maintained **at a high level**:
  - Stable liquidity: loans/deposits ratio at 61% (sector: 103%);
  - A high quality of assets and capitals, Tier 1 ratio at 17.1% (sector 14.2%[1]);
- Dynamic **development of retail banking**
  - Launching the **sales application** which allows processing credit card applications together and releasing the initial credit decision as well as signing the electronic agreement in a record time of a few minutes. The

[1]Tier 1 ratio for the sector represents the value for the third quarter of 2015, when drafting the report there were no data available as at the end of the fourth quarter of 2015.

application was made available to more than **70 mobile advisors** – not related to any specific outlet; and operating where there are currently any prospective clients;
  - The Bank consistently develops **Bank Smart Ecosystem**, in 2015 five new branches were opened (in total, the Bank holds 16 Smart branches). A rise in sales of unsecured loans by 161% as against 2014 in Smart branches confirms their effectiveness compared to traditional branches;
  - The Bank introduced **a new mobile banking application – Citi Mobile**. The application stands out on the Polish market thanks to a unique Snapshot functionality (account and card balances as well as recent transactions visible without logging in) which is used by almost 70% of mobile banking users.
  - Building a **relational banking** for individual clients: consistent growth in the current deposits by 11% YoY thanks to focusing on active clients – an increase in the number of CitiPriority clients by 8% YoY and CitiGold clients by 2% YoY;
  - Late 2015, the Bank launched **a new private banking offer – Citigold Private Client.** The main feature of the new offer is advisory services on foreign markets. Thanks to the offer the client has the opportunity to obtain "customized" recommendations for stocks from 20 exchanges worldwide. The Citigold Private Client offering already gained market recognition and 5 stars in the prestigious private banking ranking by Forbes magazine;

- Leading position in the area of **financial markets**:
  - DMBH is the leader on the **capital market** in terms of its share in turnover in stocks traded on the secondary market (10.6%);
  - DMBH reported a **growth in the number of investment accounts** by 8% YoY due primarily to a steady growth in the number of brokerage service agreements for foreign markets and forex services on CitiFX Pro platform;
  - The first place in the prestigious ranking of the Ministry of Finance for the exercise of the functions of **the Dealer of Treasury Securities** in 2016 (the fourth time in a row);
  - the Bank maintained its leading position in **the depositary and trustee activities**, with its share amounting to 43%;
- Successes of **transaction banking**:
  - **The first place** in Poland in the ranking of transactional banking by **Euromoney Cash Management Survey 2015**;
  - Increase in the assets of the **supplier funding schemes** by 25% YoY;
  - **Expansion in the area of trade finance**: increase by 7% YoY of the average balance of assets;
  - Increase in volumes **of foreign transfers** by 6% YoY;
- Development of **a global offering** to clients and an increase in credit and loan volumes:
  - **Consistent increase in** the number of businesses handled and supported by Citi Handlowy in the context of the **Emerging Market Champions Program**: +39 YoY global companies investing in Poland, +10 YoY Polish companies investing in the world;
  - According to the ranking of the 100 biggest companies in Poland by Forbes, **70% of the foreign companies** appearing on this list are handled and supported by Citi Handlowy
  - The Bank was active in the market of syndicated loans (participation in six transactions as part of banking consortia) and the market of non-treasury debt securities;
- **Building value for shareholders** – safety and stable position of the Bank confirmed by a consistent dividend policy. The Bank kept the highest dividend rate (on the basis of dividends paid in 2015) among the banks listed on the WSE.

In 2015, the Bank also maintained its listing in the next edition of the RESPECT Index, the WSE index comprising the most socially engaged companies. Citi Handlowy is one of the two banks that remain on the list since its first edition.

2. Summary financial data of the Group

PLN million	**2015**	**2014**
Total assets	49,506.8	49,843.7
Equity	6,850.7	7,410.8
Loans*	18,975.5	16,770.5
Deposits *	31,275.5	29,499.9
Net profit	626.4	947.3
Capital adequacy ratio	17.1%	17.5%

** Due from and to non-bank financial entities and non-financial sector entities, including public entities*

3. Financial results of the Group in 2015

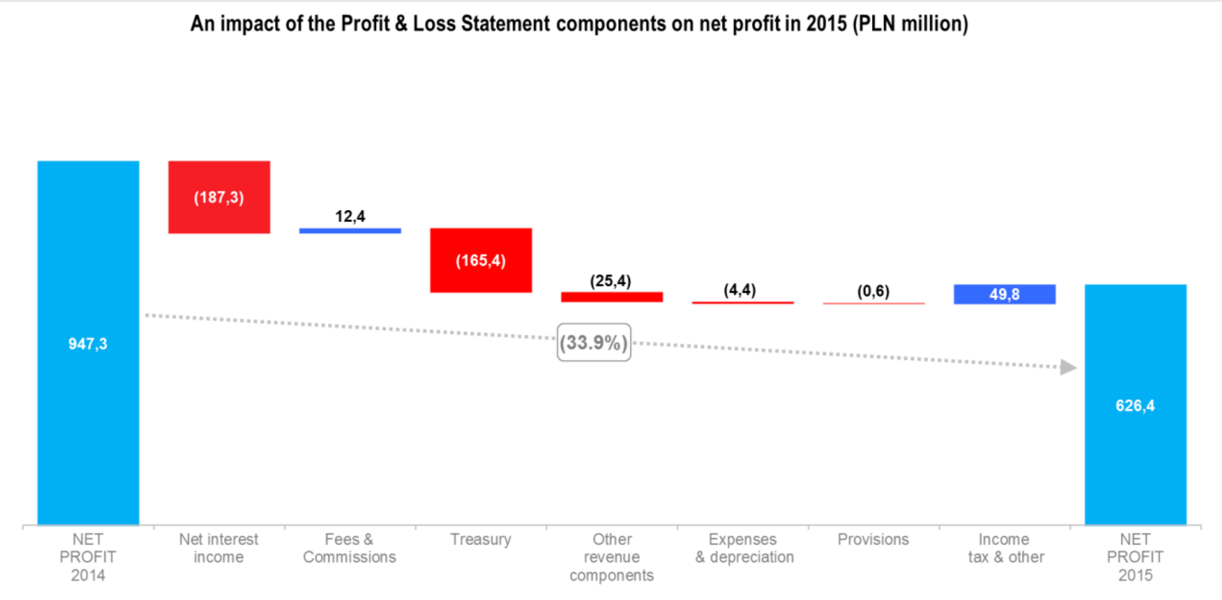
3.1 Income statement

The Group's net profit for 2015 reached PLN 626.4 million and was PLN 320.9 million (i.e. 33.9%) lower than the profit for the year 2014. The consolidated profit before tax for 2015 was PLN 790.8 million and decreased by PLN 376.9 million (i.e. 32.3%) as compared with the previous year.

Selected income statement items

PLN '000	2015	2014	Change	
			PLN '000	%
Net interest income	976,600	1,163,943	(187,343)	(16.1%)
Net fee and commission income	631,350	618,931	12,419	2.0%
Dividend income	7,382	5,783	1,599	27.7%
Net gains on financial instruments held for trading and on revaluation	293,118	382,160	(89,042)	(23.3%)
Net gains on investment debt securities	145,246	229,922	(84,676)	(36.8%)
Net gains on investment equity instruments	2,232	6,429	(4,197)	(65.3%)
Net gain on hedge accounting	7,949	(379)	8,328	-
Net other operating income	(12,170)	10,585	(22,755)	-
Total income	**2,051,707**	**2,417,374**	**(365,667)**	**(15.1%)**
Overheads and general administrative expenses and depreciation, including	(1,278,297)	(1,273,880)	(4,417)	0.3%
Overheads and general administrative expenses	(1,207,875)	(1,202,516)	(5,359)	0.4%
Depreciation/amortization of tangible and intangible fixed assets	(70,422)	(71,364)	942	(1.3%)
Net gains on sale of other assets	102	6,384	(6,282)	(98.4%)
Net change in impairment losses	17,202	17,804	(602)	(3.4%)
Share in net profits of entities valued by equity method	61	28	33	117.9%
Profit before taxation	**790,775**	**1,167,710**	**(376,935)**	**(32.3%)**
Income tax expense	(164,356)	(220,398)	56,042	(25.4%)
Net profit for the year	**626,419**	**947,312**	**(320,893)**	**(33.9%)**

The impact of individual items of the income statement on net profit is shown on graph below:



The following factors contributed to a change in net profit for 2015 as compared with 2014:

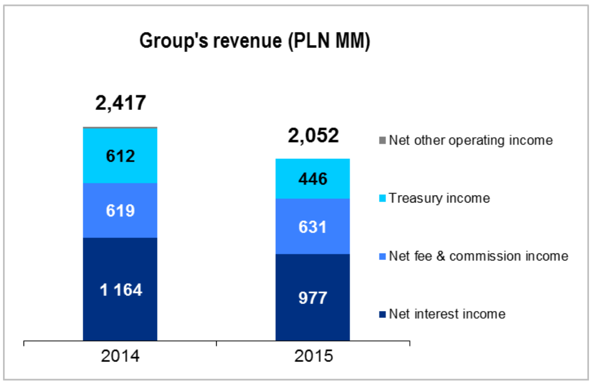
- Operating income (including the result on interest and commissions, dividend income, the result on trade financial instruments and revaluation, the result on investment debt securities, the result on investment equity instruments, the result on hedge accounting and the result on other operating income and expenses) at PLN 2,051.7 million as against PLN 2,417.4 million in 2014 – a decrease of PLN 365.7 million (i.e. 15.1%) as against 2014 income primarily due to a decline in the interest result following the reduction in interest rates and a lower result on treasury activities.
- Operating and overhead expenses along with amortization and depreciation of PLN -1,278.3 million as against PLN -1,273.9 million in the previous year – a slight increase in expenses by PLN 4.4 million (i.e. 0.3%). At the same time, in the fourth quarter of 2015, the Bank made an additional contribution to the Bank Guarantee Fund for the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin in the amount of PLN 63.6 million. With that contribution excluded, the drop in expenses compared to 2014 was PLN 59.2 million (i.e. 4.6%).
- Reversal of the net impairment write-off to financial assets in the amount of PLN 17.2 million as against to PLN 17.8 million in 2014 thanks to a further stabilization of the quality of the Bank's loan portfolio.

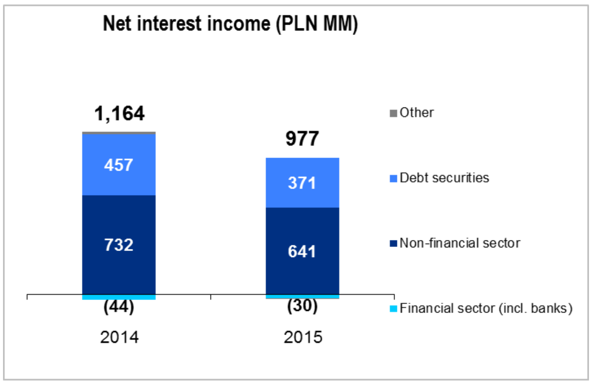
3.1.1 Revenue

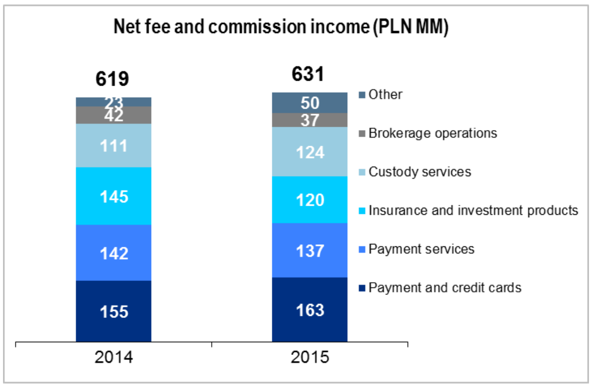
In 2015, operating income was PLN 2,051.7 million compared to PLN 2,417.4 million in the previous year, an increase of PLN 365.7 million, i.e. 15.1%.

In 2015, operating income was affected by the following factors:

- net interest income equals to PLN 976.6 million as against PLN 1,163.9 million in 2014 – a decrease by PLN 187.3 million (i.e. 16.1%) in connection with the reduction in basic interest rates to historically low levels. As a result, there was a decline in interest income from the non-financial sector clients reaching PLN 169.6 million (i.e. 18.3%) which was partially compensated by a lower level of interest expenses on clients in sector by PLN 79.0 million (i.e. 40.5%). A significant decrease in interest income was reported for the portfolio of available-for-sale debt securities by PLN 65.8 million (i.e. 18.1%) and for marketable debt securities by PLN 20.1 million (i.e. 21.5%);
- net fee and commission income equals to PLN 631.4 million as against PLN 618.9 million in 2014 – an increase by PLN 12.4 million (i.e. 2.0%) was mainly the effect of expenses being lower by PLN 29.2 million (i.e. 27.2%) YoY, especially in the area of payment and credit cards in connection with the rationalization of the product range. Income from fees and commissions decreased by PLN 16.8 million (i.e. 2.3%) YoY, mainly due to a lower brokerage income on the sale of insurance and investment products;
- net gains on trading financial instruments and revaluation of PLN 293.1 million – a decrease by PLN 89.0 million YoY being primarily the consequence of a lower result on the activities on the interbank market;
- net gains on investment debt securities in the amount of PLN 145.2 million – the result by PLN 84.7 million lower as compared to the previous year, mainly because of the risk reduction strategy in the business based on debt instruments;
- net other operating income in the amount of PLN (12.2) million as against PLN 10.6 million in 2014, i.e. a decrease of PLN 22.8 million, inter alia, in relation to a fine imposed by the judgment of the Court of Appeal on the interchange fee.





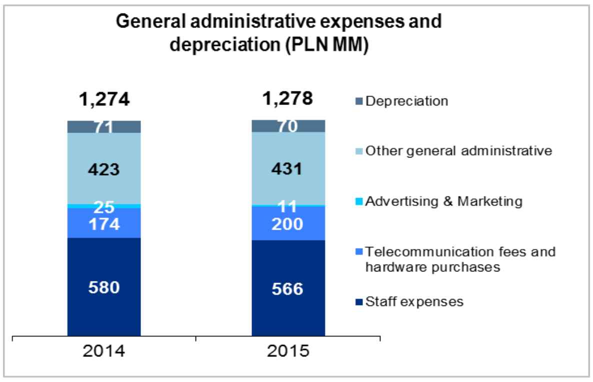


3.1.2 Expenses

General expenses & depreciation

PLN '000	2015	2014	Change PLN '000	Change %
Personnel costs	**565,763**	**579,994**	**(14,231)**	**(2.5%)**
General administrative expenses, including:	**642,112**	**622,522**	**19,590**	**3.1%**
Telecommunication fees and IT hardware	200,464	174,244	26,220	15.0%
Building maintenance and rent	82,157	100,037	(17,880)	(17.9%)
Costs of external services, including advisory, audit, consulting services	66,253	71,405	(5,152)	(7.2%)
Total overheads	**1,207,875**	**1,202,516**	**5,359**	**0.4%**
Depreciation	70,422	71,364	(942)	(1.3%)
Total general expenses & depreciation	**1,278,297**	**1,273,880**	**4,417**	**0.3%**

Operating and overhead expenses along with amortization and depreciation of PLN (1,278.3) million as against PLN (1,273.9) million in the same period last year – an increase in expenses by PLN 4.4 million (i.e. 0.3%) resulting from an increase by PLN 19.6 million (i.e. 3.1%) of general administration expenses, primarily due to the additional contribution to the Bank Guarantee Fund intended for the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin in the amount of PLN 63.6 million, partially offset by lower costs of cooperation with selected third party partners providing services to the Bank in the amount of PLN 48.2 million (i.e. 75.4%). At the same time, there was a reduction in personnel expenses by PLN 14.2 million (i.e. 2.5%) as a result of a reduction in employment.



3.1.3 *Net impairment losses on financial assets and provisions for financial and guarantee commitments*

Net impairment and provisions

PLN '000	2015	2014	Change	
			PLN '000	%
Net impairment losses incurred but not reported (IBNR)	6,727	17,932	(11,205)	(62.5%)
Net impairment losses on loans and off-balance sheet liabilities	8,540	(2,336)	10,876	-
accounted for individually	(1,791)	(18,761)	16,970	(90.5%)
accounted for collectively, on a portfolio basis	10,331	16,425	(6,094)	(37.1%)
Other	1,935	2,208	(273)	(12.4%)
Net impairment losses on financial assets and provisions for financial and guarantee commitments	**17,202**	**17,804**	**(602)**	**(3.4%)**

Positive net impairment losses on financial assets and provisions for financial and guarantee commitments at PLN 17.2 million as compared to the positive net impairment losses in 2014 at PLN 17.8 million. The institutional banking sector reported a reversal of net impairment losses amounting to PLN 3.5 million as against net impairment created for PLN 1.6 million in 2014. It was the effect of the improvement in the loan portfolio as compared to the end of last year. This resulted in a reduction in IBNR write-offs mainly for the non-financial sector entities. The retail banking sector reported a reversal of net impairment losses amounting to PLN 13.7 million in 2015 as against a reversal of net impairments for PLN 19.4 million in 2014. A reduction of PLN 5.7 million in reversals of the impairment losses is due to a reduction in releases of IBNR provisions in 2015 compared to 2014.

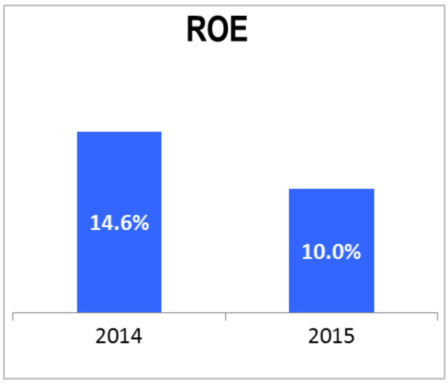
3.1.4 *Ratio analysis*

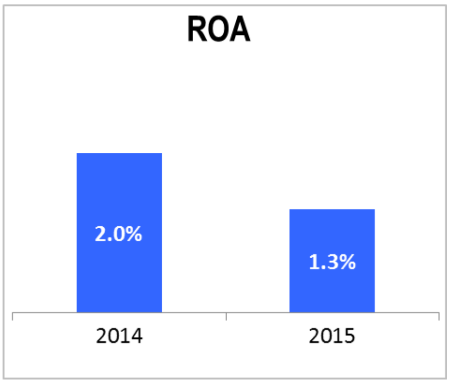
The Group's efficiency ratios

	2015	2014
Return on equity (ROE)*	10.0%	14.6%
Return on assets (ROA)**	1.3%	2.0%
Net interest margin (NIM)***	2.0%	2.4%
Margin on interest-bearing assets	2.3%	2.8%
Earnings per share in PLN	4.79	7.25
Cost/income****	62%	53%
Non-financial sector loans to non-financial sector deposits	61%	60%
Non-financial sector loans to total assets	34%	32%
Net interest income to total revenue	48%	48%
Net fee and commission income to total revenue	31%	26%

** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis;*
*** Net profit to average total assets calculated on a quarterly basis;*
**** Net interest income to average total assets calculated on a quarterly basis;*
***** Overheads, general administrative expenses, depreciation and amortization to operating income.*

In 2015, the return on capital and asset ratios remained at a higher level than the average in the banking sector, amounting respectively to 10.0% and 1.3%.





In the area of cost effectiveness, the cost to income ratio rose to 62% i.e. deteriorated by 9 pp compared to the previous year. The main influence on the increase in the cost to income ratio originated from lower operating income due to lower interest rates and a lower interchange fee as well as higher costs due to the one-time contribution to BFG due to the collapse of one of the co-operative banks.

In connection with reduction of basic interest rates in 2015 (reference rate by 50 basis points and lombard rate by 50 basis points), the margin on interest deteriorated to 2.0% on total assets and 2.3% on interest assets.

The Bank maintained a safe position in terms of liquidity and capital adequacy, as evidenced by the ratios: loan-to-deposit ratio of 61% and the capital adequacy ratio of 17.1%.

3.2 Consolidated statement of financial position

As at 31 December 2015, total assets of the Group reached PLN 49,506.79 million and were by 0.7% lower than at the end of 2014.

Consolidated statement of financial position

PLN '000	As at		Change	
	31.12.2015	31.12.2014	PLN '000	%
ASSETS				
Cash and balances with central bank	2,170,237	1,522,949	647,288	42.5%
Receivables from banks	757,103	2,065,685	(1,308,582)	(63.3%)
Financial assets held for trading	6,987,284	12,721,573	(5,734,289)	(45.1%)
Hedging derivatives	1,795	-	1,795	-
Debt securities available-for-sale	18,351,259	14,435,099	3,916,160	27.1%
Equity investments, held at equity value	7,768	7,765	3	0.0%
Equity investments available-for-sale	67,744	8,211	59,533	725.0%
Receivables from customers	18,975,471	16,770,482	2,204,989	13.1%
Property and equipment	354,080	366,857	(12,777)	(3.5%)
Intangible assets	1,371,879	1,387,745	(15,866)	(1.1%)
Receivables due to current income tax	20,673	13,255	7,418	56.0%
Asset due to deferred income tax	161,586	157,319	4,267	2.7%
Other assets	277,985	384,612	(106,627)	(27.7%)
Non-current assets available-for-sale	1,928	2,113	(185)	(8.8%)
Total assets	**49,506,792**	**49,843,665**	**(336,873)**	**(0.7%)**
LIABILITIES				
Liabilities towards banks	6,963,561	5,122,576	1,840,985	35.9%
Financial liabilities held for trading	3,247,523	6,770,922	(3,523,399)	(52.0%)
Hedging derivatives	112,383	-	112,383	-
Liabilities towards customers	31,586,303	29,632,598	1,953,705	6.6%
Provisions	23,494	26,409	(2,915)	(11.0%)
Current income tax liabilities	-	186	(186)	(100.0%)
Other liabilities	722,872	880,214	(157,342)	(17.9%)
Total liabilities	**42,656,136**	**42,432,905**	**223,231**	**0.5%**

PLN '000	As at		Change	
	31.12.2015	**31.12.2014**	**PLN '000**	**%**
EQUITY				
Issued capital	522,638	522,638	-	-
Supplementary capital	3,001,525	3,000,298	1,227	0.0%
Revaluation reserve	(163,613)	52,873	(216,486)	-
Other reserves	2,869,509	2,893,523	(24,014)	(0.8%)
Retained earnings	620,597	941,428	(320,831)	(34.1%)
Total equity	**6,850,656**	**7,410,760**	**(560,104)**	**(7.6%)**
Total liabilities and equity	**49,506,792**	**49,843,665**	**(336,873)**	**(0.7%)**

3.2.1 Assets

Gross receivables from clients

PLN '000	As at		Change	
	31.12.2015	**31.12.2014**	**PLN '000**	**%**
Non-banking financial entities	2,050,985	1,040,446	1,010,539	97.1%
Non-financial sector entities	11,005,152	10,155,119	850,033	8.4%
Individuals	6,436,445	6,280,166	156,279	2.5%
Public entities	68,291	93,643	(25,352)	(27.1%)
Other non-financial sector entities	4	4	-	-
Total gross receivables from clients	**19,560,877**	**17,569,378**	**1,991,499**	**11.3%**

In 2015 gross loan receivables grew by 11.3% compared to the previous year and amounted to PLN 19.6 billion. The increase was recorded mainly in the area of non-financial entities (PLN 0.9 billion, i.e. 8.4% compared to the end of 2014) as well as individual clients (PLN 0.2 billion, i.e. 2.5%). At the same time, net receivables from individual clients in 2015 were 13.1% higher YoY and resulted from an increase in the balance of loans of institutional clients (+9.2% YoY) and cash loans (+4.8% YoY).

Net receivables from clients

PLN '000	**31.12.2015**	**31.12.2014**	Change	
			PLN '000	**%**
Receivables from financial sector entities	**2 033 715**	**1,021,364**	**1 012 351**	**99,1%**
Receivables from non-financial sector entities, including:	**16 941 756**	**15,749,118**	**1 192 638**	**7,6%**
Corporate clients*	10 769 227	9,864,270	904 957	9,2%
Individuals, including:	6 172 529	5,884,848	287 681	4,9%
Unhedged liabilities	4 872 448	4,648,480	223 968	4,8%
Mortgage loans	1 300 081	1,236,368	63 713	5,2%
Total net receivables from clients	**18 975 471**	**16,770,482**	**2 204 989**	**13,1%**

**Corporate clients include enterprises, public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households*

The volume of the debt securities portfolio increased by PLN 1.5 billion (i.e. 7.0%) as at the end of 2015. This was the result of an increased position in the Treasury bonds.

Debt securities portfolio

PLN '000	As at		Change	
	31.12.2015	**31.12.2014**	**PLN '000**	**%**
Treasury bonds, including:	21,121,892	15,697,616	5,424,276	34.6%
covered bonds in fair value hedge accounting	4,657,996	-	4,657,996	-
Bank's bonds	1,888,873	1,319,809	569,064	43.1%
Bills issued by nonfinancial entities	-	14,799	(14,799)	(100.0%)
Bills issued by financial entities	33,054	-	33,054	-
NBP bills	-	4,499,750	(4,499,750)	(100.0%)
Total	**23,043,819**	**21,531,974**	**1,511,845**	**7.0%**

3.2.2 Liabilities

Liabilities towards customers

PLN '000	As at		Change	
	31.12.2015	31.12.2014	PLN '000	%
Deposits of financial sector entities	**3,381,132**	**3,115,435**	**265,697**	**8.5%**
Deposits of non-financial sector entities, including	**27,894,409**	**26,384,513**	**1,509,896**	**5.7%**
Non-financial sector entities	15,967,016	13,841,863	2,125,153	15.4%
Non-commercial institutions	460,371	421,085	39,286	9.3%
Individuals	8,742,032	7,661,993	1,080,039	14.1%
Public sector entities	2,724,990	4,459,572	(1,734,582)	(38.9%)
Other liabilities	**310,762**	**132,650**	**178,112**	**134.3%**
Total liabilities towards customers	**31,586,303**	**29,632,598**	**1,953,705**	**6.6%**
Deposits of financial and non-financial sector entities, including:				
Liabilities in PLN	24,589,942	23,797,009	792,933	3.3%
Liabilities in foreign currency	6,685,599	5,702,939	982,660	17.2%
Total deposits of financial and non-financial sector entities	**31,275,541**	**29,499,948**	**1,775,593**	**6.0%**

The main position which finances assets of the Bank are deposits from the non-financial sector clients which in 2015 grew by PLN 1.5 billion, i.e. 5.7%. The increase was recorded for funds in current accounts of clients as a result of the consistent strategy focused on operating accounts. The total increase in the current deposits of non-financial sector clients amounted to over PLN 0.9 billion (i.e. 4.6%) of which about PLN 0.7 billion represented the increase in funds on the current accounts of individual clients and PLN 0.2 billion – the current deposits of institutional clients (including budgetary units).

3.2.3 Source and use of funds

PLN '000	31.12.2015	31.12.2014
Source of funds		
Funds of banks	6,963,561	5,122,576
Funds of customers	31,586,303	29,632,598
Own funds with net income	6,850,656	7,410,760
Other funds	4,106,272	7,677,731
Total source of funds	**49,506,792**	**49,843,665**
Use of funds		
Receivables from banks	757,103	2,065,685
Receivables from customers	18,975,471	16,770,482
Securities, shares and other financial assets	25,414,055	27,172,648
Other uses of funds	4,360,163	3,834,850
Total use of funds	**49,506,792**	**49,843,665**

3.3 Equity and the capital adequacy ratio

The value of equity at the end of 2015 slightly decreased compared to the end of the previous year. With the decline in the revaluation reserve and reserve capital (total of PLN 241.4 million) and the increase in the supplementary capital and other capitals (PLN 2.2 million), the total value of equity at the end of 2015 was lower than the previous year by PLN 239.2 million (i.e. 3.7%).

Equity*

PLN '000	As at		Change	
	31.12.2015	31.12.2014	PLN '000	%
Issued capital	522 638	522 638	-	-
Supplementary capital	3 001 525	3 000 298	1 227	0.0%
Other reserves	2 349 602	2 374 496	(24 894)	(1,0%)
Revaluation reserve	(163 613)	52 873	(216 486)	-

PLN '000	As at		Change	
	31.12.2015	31.12.2014	PLN '000	%
General risk reserve	521 000	521 000	-	-
Other equity	(6 915)	(7 857)	942	(12,0%)
Total equity	**6 224 237**	**6 463 448**	**(239 211)**	**(3,7%)**

** Equity net of net profit/(loss)*

The capitals are fully sufficient to ensure financial security to the institution and the deposits it accepts, and to ensure business growth of the Group.

The table below presents financial data needed for calculation of capital adequacy ratio based on the consolidated financial statements of the Group.

Capital adequacy ratio*

	PLN '000	31.12.2015	31.12.2014
I	**Common Equity Tier 1 Capital**	**4,781,008**	**4,944,496**
II	**Total capital requirements, of which:**	**2,238,956**	**2,256,721**
	credit risk capital requirements (II*8%)	1,685,320	1,581,701
	counterparty risk capital requirements	78,682	87,247
	Credit valuation correction capital requirements	34,059	54,648
	excess concentration and large exposures risks capital requirements	16,418	64,549
	total market risk capital requirements	86,544	108,215
	operational risk capital requirements	337,933	350,484
	other capital requirements	-	9,877
	Common Equity Tier 1 Capital ratio	**17.1%**	**17.5%**

** Capital Adequacy Ratio calculated 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.*

As at 31 December 2015, the Group's capital adequacy ratio stood at 17.1% and was slightly lower than as at the end of 2014 (i.e. 17.5%).

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2015

1. Lending and other risk exposures

1.1 Lending

The Group's lending policy is consistent and covers the Bank as the parent company and its subsidiaries (DMBH, Handlowy Leasing Sp. z o.o.), excluding special purpose entities (the so-called investment vehicles), companies in liquidation or bankruptcy and entities that ceased their statutory operations. The policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each customer. Borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures can be taken as needed.

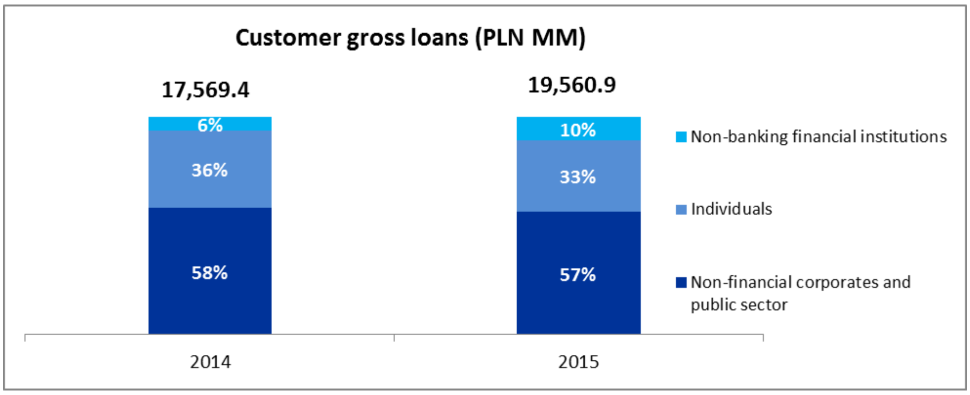
In 2015 the Group focused its credit risk management activities on:

- supporting the growth of assets;
- optimization of the lending process and adjustment of the Group's lending offer to the market conditions;
- maintaining the high quality of the loan portfolio;
- intensification of debt collection activities for the portfolio of retail credit exposures;
- effective allocation of capital;
- improvement of the management processes for the risk of models used to measure credit risk;
- continuation of development of credit risk measurement methods.

Gross loans to customers

PLN '000	As at		Change	
	31.12.2015	**31.12.2014**	**PLN '000**	**%**
Loans in PLN	16,492,240	14,725,406	1,766,834	12.0%
Loans in foreign currency	3,068,637	2,843,972	224,665	7.9%
Total	**19,560,877**	**17,569,378**	**1,991,499**	**11.3%**
Loans to non-financial sector entities	17,509,892	16,528,932	980,960	5.9%
Loans to financial sector entities	2,050,985	1,040,446	1,010,539	97.1%
Total	**19,560,877**	**17,569,378**	**1,991,499**	**11.3%**
Non-bank financial entities	2,050,985	1,040,446	1,010,539	97.1%
Non-financial sector entities	11,005,152	10,155,119	850,033	8.4%
Individuals	6,436,445	6,280,166	156,279	2.5%
Public sector entities	68,291	93,643	(25,352)	(27.1%)
Non-commercial institutions	4	4	-	-
Total	**19,560,877**	**17,569,378**	**1,991,499**	**11.3%**

As at 31 December 2015, gross credit exposure to clients amounted to PLN 19,560.9 million, representing an increase of 11.3% compared to 31 December 2014. The largest part of the portfolio of receivables from clients represent loans to non-financial sector entities (56.3%) which increased by 8.4% in 2015. Receivables from individual clients compared to 2014 increased by 2.5% and their share in the structure of total gross loan receivables amounted to 32.9%.



As at the end of December 2015 the currency structure of loans outstanding changed slightly as compared to the end of 2014. The share of foreign currency loans, which in December 2014 stood at 16.2%, decreased to 15.7% by December 2015. It should be underlined that the Group does not grant foreign currency loans to individual clients but only to business entities who have foreign currency cash flows or to entities which, in the Group's opinion, are able to predict or absorb the currency risk without a significant threat to their financial position.

To avoid exposing the portfolio to a limited group of clients, the Group monitors the concentration of its exposures on a regular basis.

Concentration of exposure to customers

PLN'000	31.12.2015			31.12.2014		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	360,285	700,722	1,061,007	85,160	916,365	1,001,525
GROUP 2	120,987	791,637	912,624	2	756,906	756,908
CLIENT 3	500,000	250,000	750,000	575,100	341,450	916,550
CLIENT 4	700,000	-	700,000	550,000	-	550,000
GROUP 5	125,146	502,862	628,008	184,949	442,417	627,366
GROUP 6	3	601,358	601,361	1	203,730	203,731
GROUP 7	447,882	84,545	532,427	660,806	107,837	768,643

PLN'000	31.12.2015			31.12.2014		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 8	419,442	94,426	513,868	93,464	44,768	138,232
CLIENT 9	-	500,078	500,078	-	500,051	500,051
CLIENT 10	450,000	-	450,000	463,200	-	463,200
GROUP 11	-	-	-	467,864	144,599	612,463
GROUP 12	-	-	-	220,486	176,527	397,013
Total	**3,123,745**	**3,525,628**	**6,649,373**	**3,301,032**	**3,634,650**	**6,935,682**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries *

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2015		31.12.2014	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,416,137	17.8%	3,806,391	16.8%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,661,946	10.7%	2,191,652	9.7%
Financial intermediation, excluding insurance and pension funds	1,842,100	7.4%	2,198,632	9.7%
Retail trade, excluding retail trade in vehicles	1,413,278	5.7%	1,561,013	6.9%
Production of food and beverages	1,290,045	5.2%	1,376,794	6.1%
Metal ore mining	1,061,007	4.3%	1,001,440	4.4%
Production and processing of coke and petroleum products	848,866	3.4%	831,430	3.7%
Manufacture of electric appliances	842,923	3.4%	393,911	1.7%
Production of metal goods, excluding machines and equipment	689,814	2.8%	565,328	2.5%
Public administration and national defense obligatory social security	640,294	2.6%	624,132	2.7%
10 business sectors	**15,706,410**	**63.4%**	**14,550,723**	**64.1%**
Other sectors	**9,084,398**	**36.6%**	**8,160,387**	**35.9%**
Total	**24,790,808**	**100.0%**	**22,711,110**	**100.0%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks).*

1.2 Loan portfolio quality

All of the Group's receivables are divided into two portfolios: a portfolio with recognized impairment and a portfolio without recognized impairment (IBNR). In the portfolio with recognized impairment, classifiable exposures are individually assessed while exposures that are not individually significant are collectively analyzed for impairment.

Loans to customers per portfolio with not recognized credit losses vs. portfolio with recognized credit losses

PLN '000	31.12.2015	31.12.2014	Change	
			PLN '000	%
With not recognized credit losses, including:	18 861 253	16,630,827	2 230 426	13,4%
non-financial sector entities	16 827 402	15,609,377	1 218 025	7,8%
institutional clients*	10 729 522	9,811,191	918 331	9,4%
individual clients	6 097 880	5,798,186	299 694	5,2%
With recognized credit losses, including:	625 591	847,540	(221 949)	(26,2%)
non-financial sector entities	608 457	828,544	(220 087)	(26,6%)
institutional clients*	269 892	346,564	(76 672)	(22,1%)
individual clients	338 565	481,980	(143 415)	(29,8%)
Dues related to matured derivative transactions	74 033	91,011	(16 978)	(18,7%)
Total loans to customers, gross, including:	**19 560 877**	**17,569,378**	**1 991 499**	**11,3%**
non-financial sector entities	17 435 859	16,437,921	997 938	6,1%
institutional clients*	10 999 414	10,157,755	841 659	8,3%
individual clients	6 436 445	6,280,166	156 279	2,5%
Impairment, including:	**(585 406)**	**(798,896)**	**213 490**	**(26,7%)**
dues related to matured derivative transactions	(67 678)	(81,134)	13 456	(16,6%)
Total loans to customers, net	**18 975 471**	**16,770,482**	**2 204 989**	**13,1%**

PLN '000	31.12.2015	31.12.2014	Change	
			PLN '000	%
Provision coverage ratio**	**82,8%**	**84.7%**		
institutional clients*	87,6%	87.5%		
individuals	78,0%	82.0%		
Non-performing loans ratio (NPL)	**3,2%**	**4.9%**		

**Institutional clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households.*
***Including IBNR provision.*

In comparison with 2014 the value of impaired loans decreased by PLN 221.9 million (i.e. 26.2%) which was the effect of improvements in the quality of both the portfolio of institutional clients as well as the portfolio of individual clients and of regularly writing off retail receivables from the balance sheet. At the same time in 2015 the ratio of non-performing loans (NPL) decreased from 4.9% to 3.2%.

The Management Board believes that provisions for loan receivables as at the balance-sheet date represent the best estimate of the actual impairment of the portfolio. Individual accounting for receivables is based on the discounted forecast of future cash flows associated with repayment of the receivables or recoveries from the collaterals. Group accounting is based on loss indicators calculated based on a reliable, historical database of clients who have problems with paying their liabilities to the Bank. For exposures with no indication of impairment, depending on the risk profile and on the basis of the Limit Risk Rating, taking account of expected recovery rates based on collateral, the probability of customer's default and historical loss at default, impairment write-offs are calculated.

As at 31 December 2015 the impairment of the portfolio was PLN 585.4 million which represented a decline by 26.7% from PLN 798.9 million at the end of December 2014. The decrease in impairment referred mainly to the clients for whom the Bank uses a group approach (by PLN 163.6 million, i.e. 42.2%). There was also a decline in impairment for incurred but not reported losses IBNR (a decrease by PLN 6.3 million, i.e. 8.9%). The provision coverage ratio fell from 4.5% in December 2014 to 3.0% in December 2015.

Impairment of the customer loan portfolio

PLN '000	As at		Change	
	31.12.2015	31.12.2014	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	64,968	71,307	(6,339)	(8.9%)
Impairment of receivables	520,438	727,589	(207,151)	(28.5%)
accounted for individually	296,332	339,901	(43,569)	(12.8%)
accounted for collectively	224,106	387,688	(163,582)	(42.2%)
Total impairment	**585,406**	**798,896**	**(213,490)**	**(26.7%)**
Provision coverage ratio (total loans)	3.0%	4.5%		

1.3 Off-balance-sheet commitments

As at 31 December 2015, contingent liabilities granted by the Group totaled PLN 18,047.5 million, representing an increase of 8.5% compared to 31 December 2014. The largest share in the total conditional commitments granted are still promised loan commitments (i.e. 81%) which increased by PLN 1,456.8 million. The promised loan commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities.

Contingent off-balance sheet liabilities granted

PLN '000	As at		Change	
	31.12.2015	31.12.2014	PLN '000	%
Guarantees	2,101,477	1,779,425	322,052	18.1%
Letters of credit issued	160,065	207,208	(47,143)	(22.8%)
Third-party confirmed letters of credit	335	918	(583)	(63.5%)
Committed loans	14,618,126	13,161,336	1,456,790	11.1%
Underwriting other issuers' securities issues	1,138,000	1,264,450	(126,450)	(10.0%)
Other	29,531	223,233	(193,702)	(86.8%)
Total	**18,047,534**	**16,636,570**	**1,410,964**	**8.5%**
Provisions for off-balance sheet liabilities	10,451	13,238	(2,787)	(21.1%)
Provision coverage ratio	0.06%	0.08%		

As at 31 December 2015, the total amount of collateral established on accounts or on assets of the Bank's borrowers amounted to PLN 3,430 million, whereas as at 31 December 2014 it stood at PLN 3,428 million.

The Bank issued 4,494 enforcement titles for the total amount of PLN 96.8 million in 2015 and 7,783 enforcement titles for the total amount of PLN 137.7 million in 2014.

2. External funding

The total external funding of the Bank (from clients and banks) stood at PLN 38.5 billion as at the end of 2014 and was PLN 3.8 billion (i.e. 10.9%) higher than at the end of 2014. The largest share in changes in external financing for the Bank's activities represented deposits on the current accounts of non-financial sector clients which increased by PLN 0.9 billion, i.e. 4.6% YoY, despite of a decrease the current accounts from public sector due to legislative changes. At the same time, term deposits from banks increased by 2.1 billion (i.e. 88.2%).

Funding from banks

PLN '000	As at		Change	
	31.12.2015	31.12.2014	PLN '000	%
Current account	681,202	663,831	17,371	2.6%
Term deposits	4,460,693	2,370,212	2,090,481	88.2%
Loans and advances received	198,203	351,533	(153,330)	(43.6%)
Liabilities from securities sold under agreement to repurchase	1,623,456	1,726,049	(102,593)	(5.9%)
Other liabilities	7	10,951	(10,944)	(99.9%)
Total funding from banks	**6,963,561**	**5,122,576**	**1,840,985**	**35.9%**

Funding from customers

PLN '000	As at		Change	
	31.12.2015	31.12.2014	PLN '000	%
Deposits of financial sector entities				
Current accounts	226,438	238,351	(11,913)	(5.0%)
Term deposits	3,154,694	2,877,084	277,610	9.6%
	3,381,132	**3,115,435**	**265,697**	**8.5%**
Deposits of non-financial sector entities				
Current accounts, including:	20,194,711	19,299,093	895,618	4.6%
Corporate clients	10,454,683	8,594,113	1,860,570	21.6%
Individuals	7,074,422	6,372,762	701,660	11.0%
Public entities	2,665,606	4,332,218	(1,666,612)	(38.5%)
Term deposits, including:	7,699,698	7,085,420	614,278	8.7%
Corporate clients	5,972,704	5,668,835	303,869	5.4%
Individuals	1,667,610	1,289,231	378,379	29.3%
Public entities	59,384	127,354	(67,970)	(53.4%)
	27,894,409	**26,384,513**	**1,509,896**	**5.7%**
Total deposits	**31,275,541**	**29,499,948**	**1,775,593**	**6.0%**
Other liabilities				
Liabilities from securities sold under agreement to repurchase	188,505	-	188,505	-
Other liabilities, including:	122,257	132,650	(10,393)	(7.8%)
Cash collateral	99,207	78,153	21,054	26.9%
	310,762	**132,650**	**178,112**	**134.3%**
Total funding from customers	**31,586,303**	**29,632,598**	**1,953,705**	**6.6%**

3. Interest rates

The table below presents weighted average effective interest rates of receivables and payables by the respective business segments of the Group:

As at 31 December 2015

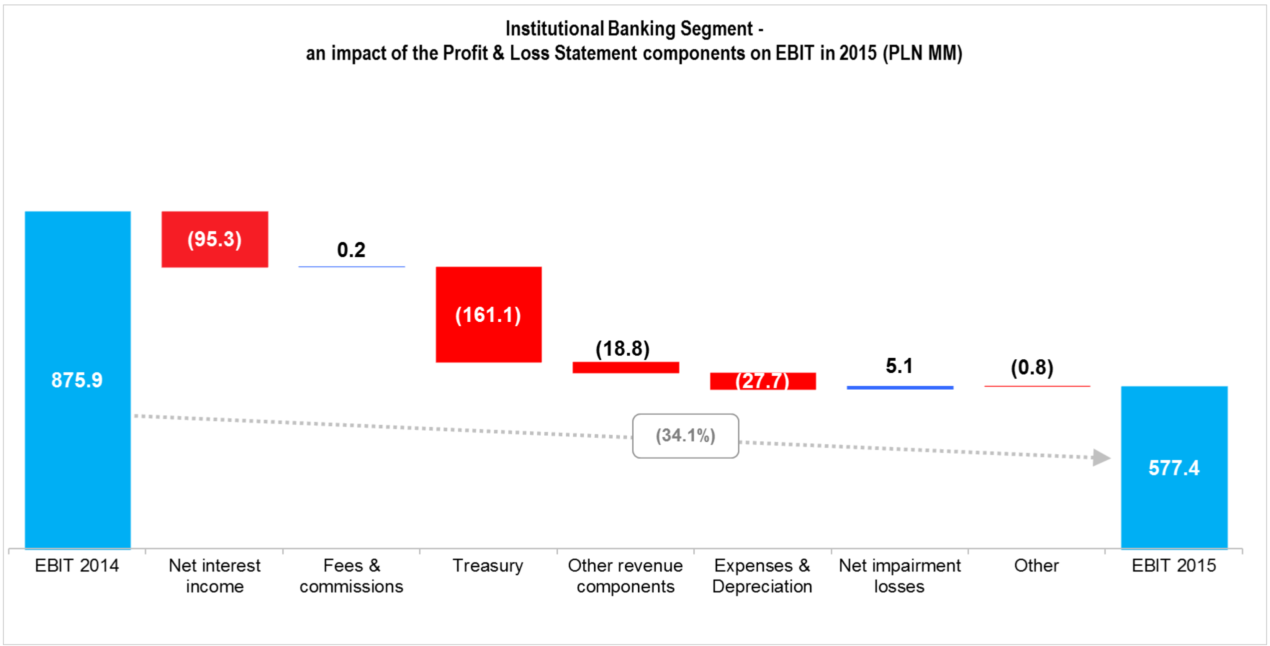
in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	2.92	1.45	1.47	10.71	4.00	-
Debt securities	2.08	0.45	1.30	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	1.42	0.31	0.54	1.11	0.20	0.20

As at 31 December 2014

in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	2.66	1.39	1.20	12.12	3.60	-
Debt securities	2.35	1.28	2.54	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	1.78	0.35	0.13	1.64	0.15	0.22

4. Institutional Banking Segment

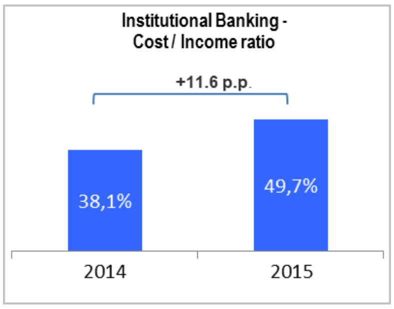
4.1 Summary of segment's results



In 2015, the Institutional Banking segment recorded a decline in pre-tax profit of PLN 298.5 million, i.e. 34.1%. The pre-tax profit of the Institutional Banking segment in 2015 compared to the previous year was driven mainly by the following factors:

- Net interest income at PLN 420.9 million as against PLN 516.1 million in 2014 – a decrease by PLN 95.2 million which is mainly a consequence of lower income on the debt securities portfolio (PLN -85.9 million, i.e. 18.8% YoY). In the case of client activities a slight increase in the result on interest was disclosed, mainly due to the reduction of deposit costs;

- Net commission income in the amount of PLN 279.9 million as compared to PLN 279.8 million in 2014 – a slight increase of the result, mainly related to other items in the income statement;
- Net income on financial instruments held for trading and on revaluation of PLN 265.9 million – a decrease by PLN 84.8 million YoY being primarily the consequence of a lower result on the activities on the interbank market;
- Net income on investment debt securities in the amount of PLN 145.2 million – the result by PLN 84.7 million lower as compared to the previous year, mainly because of the risk reduction strategy in the business based on debt instruments;
- Operating expenses and amortization and depreciation in the amount of PLN (567.6) million compared to PLN (539.8) million in 2014 – an increase of PLN 27.8 million which is mainly the result of a one-time contribution to the Bank Guarantee Fund intended for the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin. The cost to income ratio increased by 11.6 percentage points since there was a significant decline in operating income due to the decline in the result on treasury activities and the result on interest as well as the increase in general administrative expenses;



- A reversal of net impairment losses amounting to PLN 3.5 million as against net write-offs created for PLN 1.6 million in 2014. It was the effect of the improvement in the loan portfolio as compared to the end of last year. This resulted in a reduction in IBNR write-offs mainly for the non-financial sector entities.

4.2 Institutional Bank

As regards institutional banking, the Bank provides comprehensive financial services to the largest Polish companies and strategic enterprises with a strong growth potential as well as to the largest financial institutions and public sector entities.

At the end of 2015, the number of institutional clients (including strategic, global and corporate banking clients) amounted to 6,800, a decline of 6% compared to 2014 when the number of clients reached 7,200. As part of the corporate banking (small and medium businesses, large enterprises and the public sector) the Bank provided services as at the end of 2015 to 4,500 clients (which means a decrease of 10% as compared to 5,000 clients at the end of 2014).

What institutional banking clients have in common is their demand for advanced financial products and advisory in financial services. In that area, the Bank provides coordination of the offered investment banking, treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovative, competitive and modern financing structures on offer rely on a combination of the expertise and experience of the Bank and its cooperation within the global Citigroup structure.

The table below presents balances of assets and liabilities in the particular segments according to the management reporting format.

Assets*

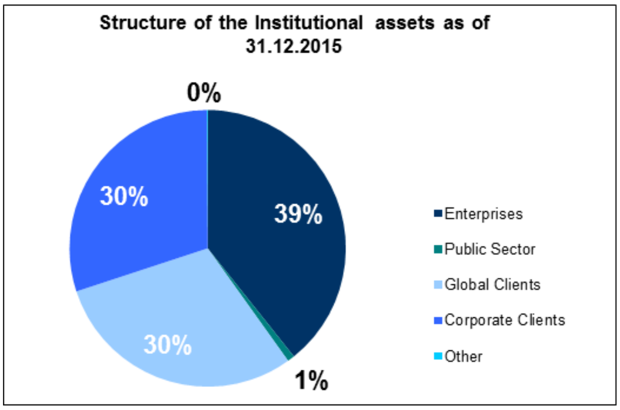
PLN million	31.12.2015	31.12.2014	Change	
			PLN million	%
Enterprises**, including:	4,433	4,357	76	2%
SMEs	1,797	1,769	28	2%
Large enterprises	2,636	2,588	48	2%
Public Sector	95	126	(31)	(25%)
Global Clients	3,370	3,531	(161)	(5%)
Corporate Clients	3,379	2,503	876	35%
Other***	12	68	(56)	(82%)
Total Institutional Bank	**11,289**	**10,585**	**704**	**7%**

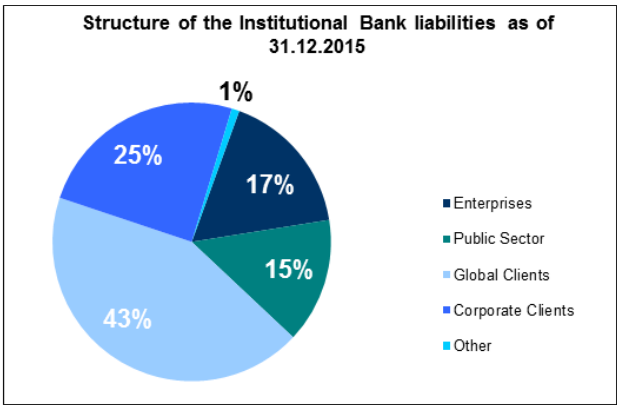
Liabilities

PLN million	31.12.2015	31.12.2014	Change	
			PLN million	%
Enterprises**, including:	3,702	3,314	388	12%
SMEs	2,605	2,203	402	18%
Large enterprises	1,097	1,111	(14)	(1%)
Public Sector	3,181	4,855	(1,674)	(34%)
Global Clients	9,442	8,393	1,049	12%
Corporate Clients	5,368	4,624	744	16%
Other***	197	413	(216)	(52%)

PLN million	31.12.2015	31.12.2014	Change	
			PLN million	%
Total Institutional Bank	**21,890**	**21,599**	**291**	**1%**

** In 2015 there was a change in the classification of customers by segment.*
*** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).*
**** 'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o., who are not clients of the Bank.*





<u>Key transactions and successes of the Institutional Bank in 2015:</u>

- The Bank was active in acquiring new relations under the Emerging Markets program among the global clients:
  - The meeting of the President of the Management Board of the Bank, Mr. Sławomir S. Sikora, with representatives of Korean companies in South Korea;
  - The acquisition of six new clients, including from the chemical, automotive and electronics industries;
  - Acquiring a new client in the automotive industry, the mandate for banking services;
  - Acquiring a new client in the chemical industry, the mandate for banking services;
  - Acquiring a new client in the electronic industry;
  - Obtaining a mandate to run a bank account, to manage cash and to exchange currencies for the manufacturer of household appliances;
  - Granting short-term financing to one of the largest drugstore chains.
- As part of the financing for corporate clients the Bank:
  - participated as the Loan Agent, the Arranger and the Lender in the syndicated loan of PLN 5.5 billion for one of the Polish energy groups. The Bank's share amounted to PLN 600 million;
  - participated in the refinancing of the debt as the Mandated Lead Arranger in the amount of PLN 12.5 billion for the client from the television industry. The Bank's share amounted to PLN 450 million;
  - was one of the arrangers of a syndicated loan for the total amount of PLN 1.6 billion granted to the client from the chemical industry in order to refinance debt and finance the general corporate purposes of the company. The Bank's share amounted to PLN 350 million.
  - signed an agreement for a large-amount acquisition loan for one of the leading Polish companies in the FMCG sector. The Bank's share amounted to PLN 330 million;
  - signed a syndicated loan with the client from fuel and energy industry amounting to USD 400 million. The Bank's share amounted to USD 40 million;
  - established a new business relationship in the area of bank account maintenance and cash management products for one of the leading international insurers operating in the Polish market;
  - established a new business relationship in the area of bank account maintenance, cash management, foreign exchange and financing for one of the international lease providers.
- The Bank closed among others the following transactions with clients from the Global Clients segment:
  - Syndicated financing of PLN 700 million for a leading international power company over 7 years. The Bank's share amounted to PLN 175 million;
  - Signing the agreement for a supplier financing program of PLN 70 million for a leading US FMCG industry company;
  - Launching a long-term loan for three years in the amount of PLN 40 million for a company from the Emerging Markets Champions group;
  - Granting a loan in the amount of PLN 30 million to one of the largest companies in the automotive industry;
  - Releasing a new PLN 25 million loan to a leading client from the agricultural sector;
  - Opening a working capital credit line for the newly acquired company in the transport sector for PLN 12 million;

- Successful tendering for issuance of a complete set of guarantees for construction of an expressway for a leading construction company in Poland (DGGK tender for S7); The deal is important because of the growth of the region in the context of the national plan for development of roads and highways;
- Issuance of 800 Visa Business cards for the leading company from the pharmaceutical sector;
- Obtaining the mandate for 3 trade financing products for PLN 165 million (supplier financing, reverse factoring and customer financing with a recourse to the sponsor) for a leading international energy company in Poland. The formal mandate is dependent on the consent of the head office of the company;

Moreover, the Bank was active in terms of acquiring new clients for banking services (for one of the biggest concerns from the automotive industry and one of the largest German companies manufacturing household appliances) and execution of FX transactions (one of the companies from the pharmaceutical industry and the company dealing with renewable energy). The Bank won tenders for account management, transaction business and lending for one of the leaders in the FMCG sector, for handling 250,000 SpeedCollect transactions per month for one of the largest companies in the telecommunications industry and the business mandate concerning settlements in EUR for a leading international fuel group. The Bank also entered into a reverse factoring agreement with one of the largest manufacturers of glass and insulating materials, and a swap agreement to hedge the interest rate risk (5–Y Interest Rate Swap) with the food industry leader;

- The Bank closed among others the following transactions with the clients from the Corporate Banking division:
  - increased a multi-purpose facility up to PLN 244 million for one of the largest clothing companies in Poland;
  - granted a commercial loan in the amount of PLN 116 million for the second largest manufacturer of rolling stock and passenger carriages;
  - provided financing in the amount of PLN 58 million to one of the leading poultry producers for the period of 5 years;
  - launched a bond issue program for a business engaged in construction, modernization and repair of rail infrastructure active on many European markets;
- As part of the Corporate Banking Division the following conferences were held in 2015:
  - In cooperation with the Scandinavian-Polish Chamber of Commerce (SPCC), the Bank organized in Sopot, the Nordic Day meeting dedicated to Scandinavian business in Poland. The event brought together representatives of the Scandinavian market in Poland, the experts on both sides of the Baltic and entrepreneurs. Nordic Day was an opportunity to talk about the Polish-Nordic business cooperation and practical aspects of international expansion. The special guest of the event was Roger Andersson, Chairman of SPCC, who told about the activities of SPCC and economic cooperation between Poland and the Nordic countries. The highlight of the event was the panel discussion on business opportunities in Poland from the perspective of a foreign investor. The panel was attended by: Witold Zieliński, Vice President of the Management Board of Citi Handlowy; Piotr Kalisz, Chief Economist at Citi Handlowy; Roger Andersson, Chairman of SPCC, representatives of Norden Centrum and the Nordic market, as well as representatives of two clients of the Bank;
  - In cooperation with the Sales Division, the Bank organized a series of interactive training “Hedge Game” in the field of financial markets, foreign exchange rate risk management, interest rates and commodity prices. The training sessions which took place in: Łódź, Katowice, Warsaw, Gdańsk and Kraków were attended by representatives of companies (clients and prospective clients) representing various corporate segments in our Bank – corporate segment with large enterprises and the segment of global clients. The aim was to present financial market instruments to the clients in a practical way and to increase their knowledge in this field. The result of the training was raising the level of satisfaction of the clients (VOC, Euromoney 2015) and a further development of cooperation with them which translates into an increased business for the Bank.
- The Bank's Public Sector Department won the tender for services to Warmia and Mazury voivodeship.
- Acquisition of the clients: the Corporate Banking Segment acquired 363 new clients in 2015, including 50 Large Enterprises, 301 Small and Medium-sized Enterprises, and 12 Public Sector Clients.

4.3 Treasury Division Operations

In February 2015, Citi Handlowy once again received the official Market Making leader award for its achievements on the Treasury BondSpot Poland market which is a wholesale market for the trading in Treasury bonds and Treasury bills.

The Bank won the competition of the Ministry of Finance for the function of the Treasury Securities Dealer (TSD) in 2016 which confirmed its position of the market leader in this segment of the market. This is the fourth consecutive victory of the Bank in this prestigious competition organized since 2002. The final result was decided by points awarded in three categories in the period from 1 October 2014 to 30 September 2015. Maintaining the first place in this ranking is a success for the Bank and a credit for the work of the whole team of the Interbank Market Trades Division.

According to the “Rating & Market” report by Fitch Ratings, at the end of 2015 the Bank held a 14.8% market share as an arranger of issues of bonds and certificates of deposit for banks and was ranked second among other market participants.

In 2015, the Bank demonstrated high activity in the market of non-Treasury debt securities by participating in the following transactions:

- Arranger for the issue of bonds for a state-owned enterprise, including placing the bonds on the primary market (PLN 450 million);
- The issue of 3-year bonds for a banking client (PLN 1.4 billion) and the issue of several smaller series of bonds for the financial sector clients (for the total amount of PLN 180 million);

- Establishing a bond issue program for a listed company for the amount of PLN 200 million together with carrying out the first issue of bonds for up to PLN 40 million;
- The bond issue for a listed company from the financial sector in the amount of PLN 125 million;
- The Bank entered together with other banks, with the client from the energy industry, into an agreement to establish a bond issue program as part of the refinancing of the existing debt for the amount of PLN 6.3 billion with the duration of the Program until 31 December 2020;
- The Bank conducted a transaction with Citigroup Global Markets for securitization of the lease portfolio for small and medium-sized enterprises for one of the leading lease companies under which the sale of a “senior” tranche to investors for up to PLN 1.2 billion was made. Bank and Citigroup Global Markets Limited acted as the Co-arrangers of the transaction. One of the investors which purchased the senior tranche is the European Investment Bank (PLN 800 million).

2015 was associated with the Bank's high activity on the side of syndicated loans as evidenced by participation in six transactions as part of banking syndicates.

4.4 Transaction services

The Bank's transactional banking offering includes asset management products (deposits and current accounts, liquidity management products, electronic banking), card products, handling payments and receivables (Direct Debit, Speedcollect), cash products, EU consulting, trade finance products.

Due to its rich history of serving key Polish and international customers, as well as a constantly expanding offer, the Bank is the leader in many market segments. The number of direct debit transactions processed by the Bank is the highest in Poland – its market share reaches 40%. The Bank is a pioneer in the market of prepaid cards. In addition, liquidity management products offered by the Bank are characterized by the highest level of sophistication.

Citi Handlowy's strong position in the market of transactional banking was recognized by clients in the Euromoney Cash Management Survey. In this prestigious study, in 2015 the Bank took the first place.

Transactional banking development priorities for 2015 were:

- Activating clients and increasing the share-of-wallet (participation in the client portfolio);
- Development and commercialization of e-banking applications;
- Expansion in the area of trade finance.

Client activation and *share-of-wallet* increase

In 2015, the Bank continued to engage in acquisition activities in the segment of small and medium-sized enterprises. During the meetings, experts of the Bank presented the clients with the options of process optimization, effectiveness improvement and increase in savings as a result of applying asset management and trade financing solutions. Simultaneously, the Bank sought to deepen relationships with existing institutional clients. Knowledge of individual client needs enables the Bank to offer additional services that are personalized for the individual client and closely matched to their needs.

Development and commercialization of the e-banking application

The Bank's goal is to develop technology solutions that allow clients to conduct daily settlements and cash management using alternative access channels such as electronic banking systems. Continued development of both CitiDirect platform and finance and commerce platform - Citi Trade Portal. The immediate effect of the projects was to provide clients with the functionalities improving the efficiency of our solutions and improving service usability of products available.

In 2015, the Bank consistently implemented the plan for further commercialization of mobile solutions offered to institutional clients. A result of these activities is a regular increase in the number of transactions made using dedicated mobile devices. In December 2015, the clients in this way made over 50% more orders than in the same period of 2014.

Trade finance expansion

High-class technological backup facilities and a wide range of products enabled the Bank to achieve a 7% increase year on year in terms of the average balance of financed trade receivables. The greatest activity was observed in the context of the classic supplier funding programs and reverse factoring schemes.

Deposits and current accounts

Current account is the basis for full use of the services the Bank offers. One of the most important elements of pursuing the Bank’s strategy is focusing on acquiring and servicing operating accounts – i.e. bank accounts hosting the crucial part of operational cash flow of their owners.

Excess funds accumulated by a customer in a current account, i.e. funds that are not required to finance day-to-day operations, may be invested in term deposits or be left in the current account with an increased interest rate. In addition to term deposits, the Bank also sells among others negotiated deposits, automatic deposits and blocked deposits.

Liquidity management products

Liquidity management structures are advanced instruments that optimize cash flows for a single customer or within a capital group. The liquidity management offer of the Bank provides the possibility of optimal management of a cash surplus in over-liquid companies and firms with increased demand for capital. The Bank's liquidity management product range includes:

- consolidated account;
- real cash pooling;
- net balance.

The use of liquidity management structures allows for debt reduction and for cutting the cost of its service while maintaining financial liquidity, and also allows the clients to streamline certain operational processes

Electronic banking

The Bank offers to institutional clients a platform for electronic banking CitiDirect. The system is made available to clients as a tool for keeping daily accounts and for cash management. In 2015, the number of transactions carried out via CitiDirect stood at over 23 million. The number of active clients of the electronic banking system at the end of 2015 amounted to nearly 4,600. The share of bank account statements delivered to clients only in electronic form remained high and stable and exceeded 90% just like in the previous years.

In 2015, the Bank consistently implemented the plan for further commercialization of mobile solutions offered to institutional clients. A direct result of these activities is a consistent increase in the number of transactions made using dedicated mobile devices. In December 2015, the clients in this way made over 50% more orders than in the same period of 2014.

In 2015, in the CitiDirect system the following functional changes were introduced:

- System administrators on the side of clients were provided with a new module to manage users and permissions;
- Balance history transactions presentation timeframes for the accounts were extended from 3 to 24 months;
- The service of automatic confirmation of execution of outgoing funds transfers was extended. It currently involves generating confirmations for all types of outgoing transactions, i.e.:
  - domestic transfers, including social security and tax (ZUS/US), SORBNET;
  - internal transfers; and
  - international transfers (including SEPA).
- Within the module CitiDirect - "Reports and Analysis" and "Queries and search" some modifications were made to the following extent:
  - improved usability of the user interface;
  - more search options;
  - making available the functionality directly from the "after logging" page which does not require the use of any additional software (Java).

In 2015 the Bank continued development of the finance and commerce platform - Citi Trade Portal in which a number of improvements were made, in particular the ones aimed at improving the efficiency of the system.

Thanks to the implemented changes report generation times were reduced. In addition, the ability to generate reports showing a greater volume of data than ever before was provided.

Receivables processing: SpeedCollect, Direct Debit and Cash Products

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of mass payments. In 2015, the Bank remained one of the top leaders in Poland's market in terms of volumes of processed transactions. The number of transactions is on the same level as in 2014.

Direct Debit. The Bank provides its customers with comprehensive debit processing. The direct debit market is a segment of such services. In 2015, the Bank processed a comparable number of transactions as in 2014, settling in this way the greatest number of transactions, as a creditor bank in Poland - thus preserving the record level of more than 40% market share. In addition, in 2015 the Bank started works on the introduction of an electronic solution to support approvals of direct debit payers.

Cash products. The Bank provides its clients with comprehensive cash management services. A vast majority of over-the-counter deposits are closed, i.e., they are delivered to the Bank in sealed packages and counted without the customer being present.

Cash deposits may be made directly into clients' accounts with the Bank. However, in view of clients' needs for automation of cash deposit management processes and correct identification of deposits originating from different client locations or from different payers, the Bank offers clients the option to make cash deposits into virtual accounts; as a result, information necessary to identify deposits is included directly in the account number, which minimizes the risk of incorrect (unidentified) payments.

In addition to over-the-counter deposits, the Bank's customers also use cash withdrawals – both traditional over-the-counter withdrawals, and sealed cash packages.

With a view to better alignment with clients' needs and a focus on customer service at locations that are key to the clients, the Bank transformed its branch network. To ensure continuous service, cash desks were set up and the partnership with Bank Pocztowy S.A. and Poczta Polska S.A. was extended. This ensured direct contacts with clients.

The Bank also provides services targeting a more narrow group of clients. In addition to standard cash deposits and withdrawals in sealed packages, the following were added to the Bank's offer:

- open cash deposits;
- cash withdrawals ordered in the Bank's e-banking system.

These services are available in the network of more than 4,500 branches and outlets of Poczta Polska S.A. throughout Poland.

Non-cash payments

As part of international transfers the Bank boasts a comprehensive and very extensive settlement offering in over 130 currencies throughout the world. The integrated settlement services include compilation of remote access channels and of the product offering in the area of international settlements. Responding to the clients' needs, the Bank introduced a multi-currency account which enables the clients to execute fund transfers in exotic currencies in a simple, convenient and effective manner with no need for opening foreign currency accounts and maintaining local accounts abroad. The Bank's offering provides a unique approach in the Polish market given the range of available currencies.

As part of the domestic settlements the Bank provides comprehensive services using three settlement systems: Elixir supporting standard payments, Sorbnet for high value payments and the innovative Express Elixir for the interbank immediate payments. The Bank also offers additional features and controls to help clients execute salary payments, transfers of taxes and transfers relating to the social security system.

Electronic Money Orders

The electronic money order is a product addressed to institutional clients that transfer cash to individuals. In 2015, the Bank cooperated in this regard with the two postal operators and processed about 230,000 orders, thus reporting a 10% increase in the value of orders, as compared to the same period of 2014.

Business cards

Under Charge and Guaranteed Cards Business Bank recorded, as compared to 2014, an increase in the number of cashless transactions, and their value increased by 4%. That was attributable to the consistent policy of attracting high transaction volumes and activation of the portfolio of the existing clients.

Prepaid cards

In 2015, the Bank reported a significant increase in the value of non-cash transactions executed with Prepaid Cards compared to the same period of 2014. The number of non-cash transactions increased by 9% whiles the value of transactions with Prepaid Cards increased by 4% YoY. The Bank also increased the number of issued cards by more than 11% compared to 2014.

EU-oriented advisory services

In 2015, the Bank started the implementation of its strategy for the new EU Financial Perspective 2014-2020 where banks are important partners in the distribution of European funds and in financing of investments co-financed with subsidies and repayable instruments.

Furthermore, the Bank prepared and submitted to the European Commission two projects concerning a new instrument of financing energy efficiency investments under the Horizon 2020 Program. The projects are dedicated to SME and public sector clients. The Bank also started to prepare for the implementation of the ELENA initiative as part of the Horizon 2020 Program. The program is carried out under the agreement with Kreditanstalt für Wiederaufbau for distribution of funds within the framework of the energy efficiency programs intended for local government units.

In addition, Citi Handlowy began working with Bank Gospodarstwa Krajowego (BGK) under the Operational Program Intelligent Development (POIR) for awarding the Loan for technological innovation which is designed for innovative projects by small and medium-sized enterprises (SMEs).

Trade finance products

2015 was another year of development of the trade finance area. With the diversification of its product range and the client portfolio it was possible to maintain a stable level of assets. For Supplier Financing Programs the Bank reported growth in assets by 25% at the end of the year compared to the level of assets at the end of 2014.

The Bank participated in the consortium for one of the biggest on the Polish market oil stock financing transactions. In addition, the development of Polish supplier financing programs was continued as part of local and regional programs. In addition, the Bank participated in the transactions for granting bank guarantees and developed subsequent financing programs, mainly for the clients from the small and medium-sized enterprises based on trade credit solutions.

An important stage in the development of products in the area of trade finance was meeting the clients' expectations and enabling discounting of trade receivables governed by the laws of foreign jurisdictions.

The key trade finance transactions in 2015 included:

- Winning in the banking consortium of the tender for handling of bank guarantees for one of the largest companies in the construction sector for a total amount of nearly PLN 100 million;

- Increasing the aggregate credit limits for financing under the Supplier Finance Programs and Trade Credit by over PLN 350 million;
- Extending for the year 2016 of our financing as part of the consortium for one of the companies in the fuel industry in the amount of PLN 195 million;
- Implementation of more than 100 suppliers to the Supplier Financing Program on both local and regional levels.

4.4.1 Custody services

The Bank provides custody services under Polish regulations and in compliance with international standards for custody services offered to investors and intermediaries active on international securities markets. The Bank can meet the requirements of the largest and most demanding institutional customers.

Citi Handlowy maintained its position of a market leader among custodian banks in Poland. The Bank provides custody services to domestic and foreign institutional investors and depositary bank services to domestic pension and investment funds.

As part of its statutory activities provided on the basis of a permit from the Securities and Exchange Commission (currently the Polish Financial Supervision Authority), the Bank operates securities accounts, clears securities trades, executes dividend and interest payments, performs asset portfolio valuations, provides individual reports, and arranges representation of customers at general shareholders' meetings of public companies. The Bank also provides the service of maintaining a registry of foreign securities, which includes mediation in clearing transactions of domestic customers in foreign markets.

In the reporting period the Bank maintained its position of the market leader in the settlement of transactions in securities executed for remote members of Giełda Papierów Wartościowych w Warszawie S.A. and BondSpot S.A. In addition, the Bank participated in the settlement of transactions made by institutional clients on the electronic trading platform in debt securities, operating under the name of Treasury BondSpot Poland, organized by BondSpot S.A.

The Bank developed an offer of omnibus accounts for authorized foreign entities, attracting new clients and consolidating a dominant position in the segment of services for foreign financial intermediaries.

In August the Bank started providing the clients with partial transaction clearing services and *netting* in securities.

As at 31 December 2015, the Bank held over 10,800 securities accounts.

At the same time the Bank acted as the depositary for five open pension funds - MetLife OFE, Aviva OFE Aviva BZ WBK, Nationale - Nederlanden OFE, Pekao OFE, Nordea OFE; five voluntary pension funds - MetLife DFE, Nordea DFE, Nationale - Nederlanden DFE, DFE Pekao, Generali DFE; as well as for the Employee Pension Fund Orange Polska.

The Bank was a custodian bank for investment funds managed by the following Investment Fund Companies (TFI): BZ WBK TFI S.A., PKO TFI S.A., Legg Mason TFI S.A. and Aviva Investors Poland TFI S.A.

In 2015, the Bank continued its activities aimed at improvement of the legislation regulating the securities market. A representative of the Bank was the Chair of the Bureau of Custodian Banks at the Polish Bank Association ("Council") for the fifth consecutive term of office. In the reporting period, the Council took an active part in the public consultation process related to the implementation of the requirements of EU AIFMD and UCITS V Directives to the Polish legal system and worked on fixing standards in connection with the performance of duties of the depositary of investment funds in relation to the planned implementation of the requirements of EU AIFMD and UCITS V Directives.

The Council was actively involved in the evaluation of other draft legal acts related to operations of domestic custodian banks. Using their own resources, experience and competences, employees of the Bank in cooperation with the Polish Financial Supervision Authority, Krajowy Depozyt Papierów Wartościowych S.A., KDPW_CCP S.A. and Giełda Papierów Wartościowych w Warszawie S.A. participated in the consultation on the introduction of new solutions on the Polish capital market in the framework of the working groups set up by the Polish Bank Association, as well as in the works of market working groups for the creation of standards regarding the settlement and *pre-matching of* transactions, in particular the so called National Market Practice Group appointed at KDPW S.A. As a result of the work the Council adopted a market standard on the automation of *pre-matching* and *matching* of transactions, defining the scope for identifying counterparties during the compilation of settlement instructions in KDPW S.A.

4.5 Brokerage Activity

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

In 2015, DMBH brokered session transactions representing 10.6% of equities trade on the secondary market and once again ranked first in the market. The value of session transactions executed via DMBH in the equities market on the Warsaw Stock Exchange (WSE) amounted to PLN 43.0 billion and declined by 21% in relation to the preceding year while trading on the WSE decreased by 0.9% YoY. The primary reason for such significant shifts in the recorded turnover dynamic is the overhaul of the open pension fund system and the overall unfavorable business climate in the Polish equity market. As the market leader with the largest market share, the Bank's brokerage house (DMBH) was particularly hit by the changes given its large share of foreign clients whose attention was drawn to the other markets under the circumstances. An intensifying competition in the domestic market is also the cause of a further reduction in the rates of commissions and favors brokers carrying out remote operations on the Polish market. Their activities contributed to the stabilization of the drop in turnover on the WSE through the growing use of HFT (High Frequency Trading).

At the end of 2015, DMBH was the Market Maker for the shares of 32 companies listed on the Warsaw Stock Exchange (including 20 covered by WIG20 stock market index). That represented 8.2% of all shares traded on the WSE main market.

2015 saw a continued increased activity of retail clients using the CitiFX Pro transactional platform enabling purchase or sale of shares and ETF units traded on the largest foreign exchanges as well as OTC FX instruments using the financial leverage. The functionalities which are very popular with the clients include the option to transfer and actively manage held portfolios of foreign stocks. Furthermore, the clients gladly use foreign currency accounts which enable them to make investments using held currency assets with no need for making any conversions.

In November, the distribution of investment certificates of Quercus MultiStrategy FIZ distributed exclusively by DMBH and PPZ Bank outlets started. As a consequence, assets amounting to PLN 47 million were acquired and 80 new investment accounts for individual clients were opened.

As of 1 December DMBH started providing investment advisory services for foreign markets in the form of a model portfolio for a new segment of clients, i.e. Citi Private Client.

The number of brokerage accounts held by DMBH at the end of 2015 was 10,500 and increased by 8.2% compared to the end of 2014. The number of accounts increased due primarily to a steady growth in the number of brokerage service agreements for forex and foreign market services on CitiFX Pro platform.

2015 was a very successful year in terms of the number and value of transactions carried out the Capital Transactions Bureau. DMBH carried out the following transactions on the capital market:

- Alior Bank S.A. – DMBH acted as the Joint Bookrunner in the accelerated sale of a PLN 163.8 million stake held by EBRD (January 2015);
- BZ WBK S.A. – DMBH acted as the Joint Bookrunner in the accelerated sale of a PLN 172.1 million stake held by EBRD (May 2015);
- Philips Lighting Poland S.A. – DMBH was the intermediary in a non-public transaction (June 2015);
- Alior Bank S.A. – DMBH served as the Bookbuilding Co-Runner under the transaction for an accelerated sale of shares belonging to the Management Board amounting to PLN 78 million (July 2015);
- Agnella S.A. – DMBH served as the agent in a private transaction (July 2015);
- TVN S.A./Southbank Media Limited – DMBH served as the Agent under the tender for 100% of the shares in TVN S.A. amounting to PLN 3.1 billion (August 2015);
- TVN S.A./Southbank Media Limited – DMBH served as the Agent under the forced buyout of the shares in TVN S.A. amounting to PLN 85 million (September 2015);
- Lubelski Węgiel “Bogdanka” S.A. – DMBH acted as an intermediary in a tender offer announced by Enea S.A. worth PLN 1,480 million (October 2015);
- Stalprodukt S.A. – DMBH acted as an intermediary in the process of invitation to tender sale of shares under the share buyback program by Stalprodukt S.A. with the value of the first tranche of the program being equal to PLN 89.6 million (December 2015).

Summary financial data as at 31 December 2015*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2015
		%	PLN ‘000	PLN ‘000	PLN ‘000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	348,412	114,403	19,453

**pre-audit data*

4.6 Leasing

In connection with the decision of the Bank’s Management Board to limit the scope of leasing activities of the Bank’s Group, the scope of activities of Handlowy-Leasing Sp. z o.o. (“Handlowy-Leasing” or “HL”) was restricted only to handling lease agreements entered into by 30 April 2013. No new lease contracts were concluded after that date by Handlowy-Leasing. The goal of the Company is to continue performance of existing agreements, maintaining the service quality and ensuring process continuity and the economic efficiency in its business.

The leasing product continues to be offered by the Bank; however, it is made available as part of the "open architecture", i.e. the Bank's cooperation with organizations from outside its Group, treated as partners. Currently, leasing services are provided under a cooperation agreement by two partners: Europejski Fundusz Leasingowy S.A. and CorpoFlota Sp. z o.o.

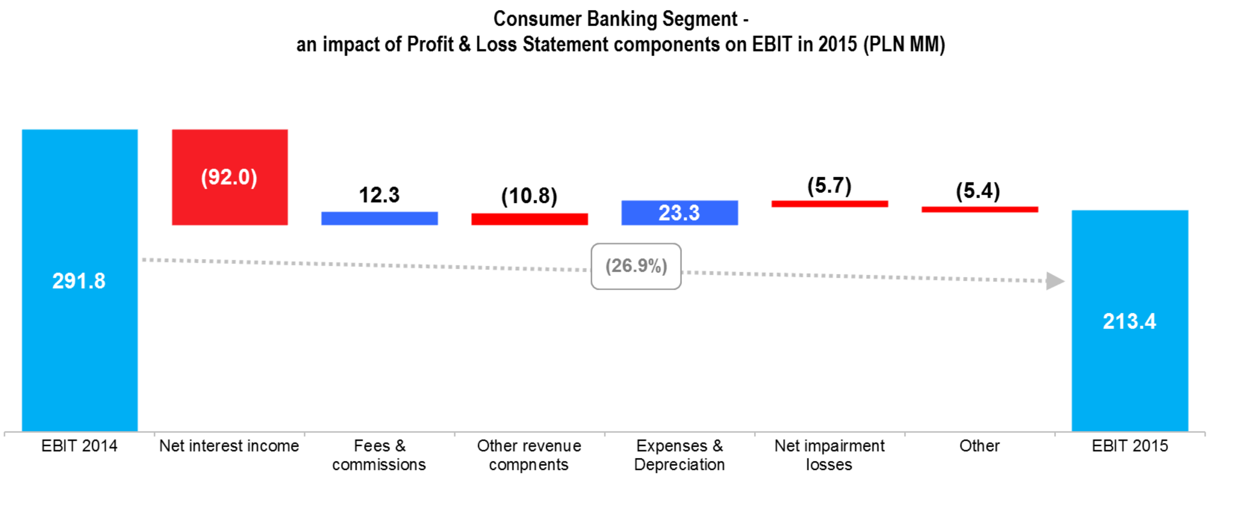
Summary financial data as at 31 December 2015*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2015
		%	PLN ‘000	PLN ‘000	PLN ‘000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	184,631	139,127	3,928

**pre-audit data*

5. Consumer Banking Segment

5.1 Summary of the segment's results

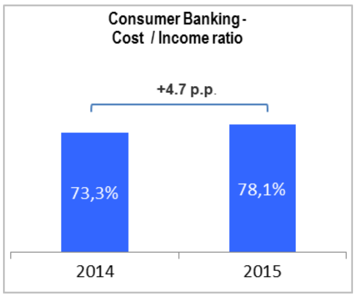


In 2015, the Retail Banking segment recorded a decline in pre-tax profit of PLN 78.4 million, i.e. 26.9%. The pre-tax profit of the Retail Banking segment in 2015 compared to the previous year was driven mainly by the following factors:

- The decrease in net interest income due to a reduction in interest rates on credit products (interest rate in 2015 was lower by 5 percentage points as compared to 2014 as a result of changes in market interest rates) which was partially offset by a 5% increase in credit balances as compared to 2014 and a decrease in interest costs that was achieved with the 14% increase in the balance of deposits in relation to 2014 as a result of lower interest rates and their alignment with market interest rates (lower interest rates related mainly to savings accounts and term deposits);

- The improved of net commission income despite a subsequent reduction of interchange fees to 0.2% for debit cards and 0.3% for credit cards. The increase was realized by changing the structure of the sale of investment products, optimization of the cost of credit card loyalty programs, and alignment of the table of fees and commissions to the model of client segmentation in line with the strategy of the Bank, i.e. preferential treatment only to clients with an in-depth relationship with the Bank (free of charge account, the preferential rate for conversions and free investment advice); Other components of income include the result on financial instruments and revaluation (a fall by PLN 1.9 m), dividend income (an increase of PLN 0.6 m) and the result on other operating income and expenses (increase by PLN 6.3 m);

- The decrease in operating expenses as a result of restructuring activities in operational service units, as well as the further transformation of the distribution network for the model of direct sales. The savings were partly reinvested in technology and the development of a network of modern Smart branches (16 branches at the end of 2015 as against 12 branches at the end of 2014) and covered the cost of guaranteed deposits of the bankrupt SK Bank from Wołomin. The cost to income ratio increased by 4.7 percentage points since there was a significant decline in operating income due to the decline in the result on interest;



- A reversal of net impairment losses amounting to PLN 13.7 million in 2015 as against net impairment losses reversed for PLN 19.4 million in 2014. A reduction of PLN 5.7 million in reversals of the net impairment losses is due to a reduction in releases of IBNR provisions in 2015 compared to 2014. In addition, there was an increase in provisions for the impaired portfolio in 2015 due to an increase in the average age of the portfolio and the related observations regarding recoveries.

5.2 Selected business data

	2015	2014	Change PLN '000	%
Number of individual customers	682.9	724.6	(41.7)	(5.8%)
Number of current accounts, including:	464.5	477.7	(13.2)	(2.8%)
number of operating accounts	293.4	315.5	(22.1)	(7.0%)
Number of operating accounts newly acquired in the period	82.5	68.0	14.5	21.3%
Number of savings accounts	160.4	168.6	(8.2)	(4.9%)

	2015	2014	Change PLN '000	%
Number of credit cards, including:	697.0	732.5	(35.5)	(4.8%)
co-branded cards	383.2	428.4	(45.2)	(10.6%)
Number of active credit cards	632.0	661.5	(29.5)	(4.5%)
Number of debit cards, including:	276.7	305.6	(28.9)	(9.5%)
PayPass cards	264.6	286.8	(22.2)	(7.7%)

5.3 Key business achievements

Bank accounts

Current accounts

The number of personal accounts at the end of 2015 fell to 464,000 (while at the end of 2014 it amounted to 478,000). Of these, 278,000 were Polish zloty accounts, and 186,000 were foreign currency accounts. The total balance in accounts exceeded PLN 4 billion, while it was almost PLN 3.1 billion at the end of 2014.

Savings accounts

The number of savings accounts as at the end of 2015 was 160,000. The total balance of funds accumulated on them amounted almost to PLN 2.9 billion as against 169,000 savings accounts with the total balance of PLN 3.2 billion in the same period last year.

Changes in the offering

In January 2015, the revised Table of Fees and Commissions took effect, which introduced among others the following:

- uniform criteria of waiver of the account maintenance fee for all clients of Citi Priority segment;
- new, higher average monthly balance at PLN 300,000 in all accounts at the Bank for clients opening a Citigold Personal Account as of 2 January 2015.

The introduced changes are consistent with the Bank's strategy. The new model of fees and commissions encourages the clients to use the remote channels and to deepen their relationship with the Bank so that they satisfy the criteria applicable to Citi Priority or Citigold clients.

Starting from January 2015, the clients of Citi Priority, Citigold and Citigold Select segments have been rewarded with higher interest paid on their funds accumulated in the Savings Account when they tighten their relationship with the Bank by increasing their exposure to investment products.

The interest paid on PLN term deposits was lowered in March 2015 in the aftermath of further interest rate cuts and the interest paid on savings accounts was reduced in May 2015. The Bank kept higher interest on term deposits opened via Citibank Online Internet banking service consistently with its strategy of encouraging clients to take advantage of remote channels.

The Bank continued to actively support acquisition of clients in Citigold and Citi Priority segments by means of promotional offers for term deposits and new Citigold clients and the CitiGold Recommendation Program.

Late this year the Bank launched a completely new private banking strategy – Citigold Private Client. This offer is addressed to the most demanding group of clients with assets of at least PLN 3 million. With this offer, the clients gain access to the most experienced teams of experts of the Bank and to a broad package of product solutions based on global experiences and solutions.

Credit cards

At the end of 2015 the number of credit cards amounted to 697,000. The debt balance on credit cards at the end of 2015 amounted to PLN 2.2 billion, i.e. was 3.2% higher than that reported for the same period in the preceding year. As a result, the Bank consolidated its leading position in the credit card market in terms of the value of credit facilities extended in the form of credit cards, holding a market share of 25% according to the figures provided at the end of December 2015.

In 2015 the acquisition of credit cards was lower than in the previous year but comparing the second half of 2015 to the same period in 2014, we observed a significant increase in the acquisition of up to 20%. Such a large increase is due to the intensive activities of the Bank aiming to offer more attractive acquisition across all channels and an active television campaign for Simplicity card.

Instead, quality of the issued cards and the share of the cards issued on the basis of the clients' documented income data improved which translated into a higher level of card activations and a greater number of card transactions among the newly acquired clients.

In 2015, the Bank continued the strategy of a balanced participation of the various distribution channels which had a direct impact on both sales growth and its quality. Following the further steps of technological development the Bank introduced an automated process for card sales - Sales Automation which already handles 65% of direct sales. This process allows to instantly receive an initial credit decision and is fully electronic which allows applying for the card outside the bank's branches.

In the structure of the acquisition of credit cards in the second half of 2015 the leader was Simplicity card which appeared in the Bank's offer in May this year and reached the share in the acquisition at 65%. As regards co-branded cards, the highest share in the issued cards was that of Citibank World Credit Card with a share of 23% followed by Citibank PremierMiles Credit Card with a share of 5%.

Credit products

Cash advances and instalment products to credit card account

The balance of cash products at the end of 2015 amounted to PLN 2.6 billion and recorded an increase of 6% annually. Total sales of cash products reached PLN 1.5 billion in 2015.

In 2015, the Bank continued its model for sales of cash products as revised in 2014, focusing on the sale under remote processes such as the process by telephone or via the Internet platform of the Bank and the simple process of direct sales among others in modern Smart branches.

Mortgage products

The mortgage loan portfolio stood at PLN 1.3 billion at the end of 2015 which represented an increase of 5% compared to the end of 2014. Sales of mortgage products in 2015 amounted to PLN 180 million.

Acquisition of new loans in the area of mortgage products was focused on the CitiGold segment. The share of this segment in the sales of new products remained stable at more than 50%.

Investment and insurance products

Investment products

At the end of 2015, the total value of investment products (including investment-type insurance products, net of bi-currency investments) purchased by retail clients via the Bank was 4.5% higher than at the end of the same period of 2014.

This increase was mainly in the area of investment funds and structured bonds, as well as the instruments accumulated on accounts maintained by Dom Maklerski of Bank Handlowy S.A. (DMBH).

Within the scope of cooperation with DMBH, the Bank granted its clients access to 26 issues of investment certificates of closed-end investment funds.

As regards structured products, the Bank offered 115 structured bond subscriptions denominated in PLN, USD and EUR in the entire 2015.

6. Development of distribution channels

6.1 Branch network

Construction of Bank Smart Ecosystem

In 2015, the Bank expanded the Smart Ecosystem to include 4 new outlets. After the branches which opened in Q1 2015 at Katowice’s Centrum Handlowe Silesia, Poznań’s Centrum Handlu, Sztuki i Biznesu Stary Browar and Kraków’s Centrum Handlowe Bonarka City Center, a new branch at Kraków’s Kazimierz Shopping Mall became operational in mid-June.

In January 2015, a part of Citigold HUB, a Smart type branch opened toward the end of 2014 at Neptun Office Center in Gdansk, became operational. This is the first outlet of this kind in Poland. Citigold HUB constitutes a large prestigious space with new top-standard finishing intended for servicing of the clients from Citigold and Citigold Select segments.

At the end of 2015, the Smart Banking Ecosystem already had 16 branches, varying in format, all of which offered the smart banking model, a coherent and dynamic system customized to the clients’ current and future behaviors. State-of-the-art technologies enabling comfortable banking based on mobile and Internet solutions have also been deployed in the branches.

Changes to the network of outlets

At the end of 2015, the network of the Bank's branches comprised 45 outlets. As part of the optimization process and in implementation of the new banking concept, the Bank closed down the operation of 3 branches in Gdańsk, Szczecin and Warsaw.

New branches were opened in Katowice, Kraków, Poznań and Gdańsk within the scope of expansion of the Smart Banking Ecosystem.

Number of branches (at the end of period)

	December 31, 2015	December 31, 2014	Change
Number of branches (at the end of period):	**45**	**44**	**1**
- HUB Gold	8	8	-
- Smart Hub Gold	2	1	1
- Blue	18	21	(3)
- Investment Center	2	2	-
- Smart Branches	14	11	3
- Corporation Branches	1	1	-
Pozostałe punkty sprzedaży/obsługi klienta:			
Airports	4	4	3
Shopping malls and cinemas	8	21	(3)
Others (BP stations, Aqua Park)	6	0	6
Cash points (Billbird and Impel)	12	4	(21)
Own ATMs	76	71	5

6.2 Internet and telephone banking

Mobile banking

At the end of 2015 the number of active users of mobile banking Citi Mobile, that is, those who at least once a month used mobile banking amounted to over 71,000 which represents an increase of 8% compared to the level at the end of 2014. The share of active users of mobile banking in relation to the entire portfolio of Citi Handlowy clients was at the end of 2015 slightly higher than 11% which represents an increase of 2 percentage points as compared to the corresponding period in 2014.

Since the release of Citi Mobile banking platform in May 2010 the application was downloaded and at least once logged onto by 230,000 users.

In November 2015, a new version of the mobile application was launched; it allows among others to make transfers to undefined recipients, to check balances and recent transactions without logging in, to authenticate by fingerprint (for Apple phones). Only in November, the number of sessions (logins to the new platform Citi Mobile) was close to 680,000 which represents an increase of about 250,000 compared to October and the old version of the application.

Online Banking

As a result of efforts to spread Internet banking as a channel of contact with the Bank and the distribution of banking products, the percentage of active users of online banking, or those who at least once a month logged into the transaction on-line/mobile service on their computer or phone was 49.7% at the end of 2015, an increase of almost 3% compared with the end of 2014.

With the growing popularity of electronic banking, one of the priorities of the Bank is to continuously improve the standards of on-line services which in 2015 resulted in the implementation of the project for online card activation and redesigning of credit card screens. This contributed to the best NPS result in the history of the Citibank Online channel at 25%.

The share of transactions executed via Internet or mobile banking channels in total banking transactions at the end of 2015 amounted to 95% and grew by 1 percentage points in relation to the corresponding period of 2014.

In 2015, Internet acquisition channels were the main channel for acquiring credit cards for the Bank. The number of new credit cards sold online increased in 2015 by 75% which gives approx. 30% of the aggregate acquisition in the Bank. Together, the on-line sales accounted for 10% of the overall sales result of the Bank.

The acquisition in the area of unsecured loans increased by 88% and the contribution of online channels in the acquisition of CitiPriority accounts was 10%.

Social Media

In 2015, the Bank continued activities in social media remaining an important channel of contact with the clients. The Bank focused on improving the quality of customer services which resulted in the designation of the Bank by Facebook as the fastest responder in the banking industry. All fan involvement indicators improved (almost twice), the average daily coverage amounted to 22,000 people. The Bank has more than 145,000 fans.

7. Changes in IT technologies

In 2015, technology projects were implemented to ensure development of a stable technological platform for retail and institutional banking under the Bank's current strategy and to ensure technology cost reductions while expanding the state-of-the-art product offer and improving the quality of offered services. The Bank's IT processes are executed according to international standards, as confirmed in Q1 2015 by a positive outcome of a supervisory compliance audit under ISO 20000 (IT service management), ISO 27001 (information security management) and ISO22301 (business continuity management).

The following solutions were implemented in 2015:

- implementation of a state-of-the-art mobile application for retail clients;
- implementation of a mobile sales application for branch employees;
- implementation of additional mechanisms securing websites of the Bank (anti-malware, new AKAMAI features);
- continued development of the retail distribution network in the Smart Banking Ecosystem model with 16 branches opened as at the end of 2015. The branches deploy state-of-the-art technologies and audiovisual solutions as well as improved sales and operational processes;
- development of the functionalities of the ATM network including among others the introduction of currency deposits;
- changes to the Bank's internet platform improving usability and customer experience;
- adapting the Bank's systems to the regulatory requirements – eDeklaracje, EMIR, FATCA, changes in documentation for credit and insurance products;
- implementation of a new version of the system for local financial ARES reporting;
- implementation of the KDPW OTC clearing solution for the Treasury Division;
- Simpliciti solution implementation for the Treasury Division for handling deal valuation models;
- implementation of the platform Quantum FX - a new back office platform for FX;
- Prime/Online system adaptation to the Bank's client requirements for handling VISA Business cards which enabled the acquisition of a new portfolio of about 600 business cards;
- automation of testing of suspicious transactions for the team of the Anti-Money Laundering (AML Ops);
- implementation of WiFi infrastructure at further locations of the Bank;
- VOIP telephony implementation in subsequent locations of the Bank and modernization of the main telephone exchange of the Bank.

Pending initiatives and system modifications impacting the Bank's activity in the coming periods:

- continued development of the electronic platform for trade finance services in line with business needs;
- implementation of a new platform supporting commercial cards for institutional customers and a new version of the prepaid card platform Prime/Online;
- project to launch Mastercard cards in the area of prepaid cards;
- replacement of the main system used by the Treasury Division, Kondor+, with eDealer in order to implement new functionalities, reduce development and operating costs;
- replacement and expansion of the main system supporting the Securities Services Division, SMAC, with SECORE;
- implementation of the platform Know Your Customer in order to improve the process of identifying clients;
- implementation of the Follow the Sun model supporting the Bank's ICT infrastructure services provided by specialized vendors;
- infrastructure modernization project for recording voice calls (voice recording);
- projects implementing additional security measures for the Bank's IT platforms;
- implementation of a new solution for calculating CIT, PIT and VAT due to tax changes;
- project to adapt SEPA payments handling to the regulatory requirements of the European Central Bank.

8. Equity investments

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In 2015, the Bank continued to pursue its existing equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase the market share, stimulate development of the Bank's relations and expand the Bank's offer; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

8.1 Strategic portfolio

This portfolio includes companies running a business in the financial sector which contribute to the Bank's product offering, bring prestige to the Bank's operations and strengthen its competitive position in the Polish market of financial services.

The strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank holds minority interest in such companies but they are of strategic importance to the Bank in view of their operations as well as cooperation with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The overall aim of the Bank when exercising corporate governance over such companies is to maintain their development without affecting their business operations, which is taken advantage of by the Bank as well as other financial market participants.

8.2 Divestment portfolio

The divestment holdings are entities in which the Bank's investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic aims for the Bank with regard to such companies is to gradually reduce the Group commitment. The assumption is that individual participations will be sold whenever market conditions are most favorable. The portfolio of companies intended for sale locks capital without a predetermined rate of return. The Bank is not planning to do any new capital investments which would be sold later. The portfolio of companies intended for sale might be increased with additional exposure taken over by the Bank as part of debt for capital swap or acquired in the course of operating activities.

Special purpose investment vehicle companies

As at 31 December 2015, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner's returnable contributions to capital and with their net profits.

As the Bank continues to pursue a strategy of restricting the activity run through special-purpose investment vehicles, it is expected that further investment vehicles will be gradually sold or liquidated.

According to information available as at the date of preparation of the financial statements, the (preliminary unaudited) main financial data of the companies in question as at 31 December 2015 were as follows:

Entity	Headquarter	Authorized capital/votes in GM held by the Bank	Balance sheet	Equity	Net financial profit/loss for 2015
		%	PLN '000	PLN '000	PLN '000
Handlowy-Inwestycje Sp. z o.o.	Warszawa	100.00	10,930	10,893	57
Handlowy Investments S.A.*	Luksemburg	100.00	44,397	18,633	(1,578)

* Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 29 February 2016, which is the entity's balance sheet date.

9. Awards and honors

In 2015, the Bank, DMBH and the Kronenberg Foundation received a number of prestigious awards and honorary titles:

- Companies voting in the poll of **Euromoney Cash Management Survey 2015** indicated the management of financial resources in Citi Handlowy as the best in Poland. This year's edition is a repeat of the last year's success which was the first place in the ranking thus confirming its leading position in the region of Central and Eastern Europe;

- The renowned "**Euromoney Magazine**" named Citi Handlowy Poland's best private banking provider to global clients. The Bank ranked first in the "International Clients" category of the **"Private Banking and Wealth Management"** ranking. "Euromoney Private Banking and Wealth Management" awards are granted since 2003 for the quality of private banking services and are one of the most important awards in the banking industry on the world stage. The winners are chosen from among the best banks from 60 countries. Awards winners are selected by the people directly related to the banking sector;

- A spot promoting the **Citi Simplicity** card was considered the **best commercial for the card product** broadcasted in the Polish media. The award was handed over during the Polish Card Gala organized as part of the 8th Conference Central European Electronic Card - Warsaw 2015. The advertising campaign for the Citi Simplicity credit card started in September this year. The ad was broadcasted in national and local radio and television stations, and its subsequent stages covered the leading portals;

- Citi Handlowy ranked third in the Commercial Bank category of the **Best Bank 2015** competition. The award was presented at an official ceremony on 17 June 2015. The 23rd edition of the competition looked to honor banks that excelled in financial performance;

- On the 25th anniversary of its presence in Poland, the **American Chamber of Commerce (AmCham)** awarded Citi Handlowy as the **Impact Pioneer**s. Citi Handlowy was named one of the strongest financial institutions in Poland which offers state-of-the-art products and services to corporate and retail clients. During the Gala which took place on 14 February 2015 AmCham awarded statuettes of the Impact Pioneers to three outstanding organizations in Poland, including Citi Handlowy;

- 18 initiatives in the field of corporate social responsibility (CSR) initiated by Citi Handlowy appeared in this year's **13th edition of the report** Responsible Business Forum. **"Responsible Business in Poland. Good Practices"** is a publication issued since 2002. It is the only such title summarizing the most important projects in the field of corporate social responsibility. Among these practices, the report found a record number of 18 initiatives originating from Citi Handlowy. Among the new practices (for the first time in the report) there were: Aleksander Gieysztor Award, the Bank

Handlowy Award, the Roots Program, the Volunteer Club, Be Entrepreneurial, Business Start-up, Environmental Management System Maintenance, Energy Management System Implementation, and the Live Well Program;

- **Ranking of Responsible Companies by Dziennik Gazeta Prawna** - on 21 April results of the ninth edition of the Ranking were announced. Citi Handlowy present in the ranking since its first edition took the 1st place in the category of banking, financial and insurance sector. The Bank won the highest score being the sum of points in five audited categories – responsible leadership, social commitment, and communications with stakeholders, social innovation and responsible management. The Ranking of Responsible Companies is a list of the largest companies in Poland, evaluated in terms of the quality of management of corporate social responsibility. Experts from PwC were responsible for verifying the results;

- Citi successfully passed the supervisory audit against the **ISO 50001** standard and a re-certification against the **ISO 14001** standard which confirms the correctness of the process of streamlining the Environmental and Energy Management System;

- Citi Handlowy stood on **the podium** in the ranking **"Banking Starts" in the category of profitability and efficiency.** The award ceremony took place on 2 July 2015 at the headquarters of the National Bank of Poland. The award of Dziennik Gazeta Prawna granted together with the consulting firm PwC was intended for the best banks of 2014. Financial institutions were awarded in five categories – the pace of development; the structure of business; profitability and efficiency; Innovation and overall activity. The ranking is based on the analysis of data originating from the financial statements.

- Citi Handlowy for the eighth time was listed in the **RESPECT Index**, the first, in Central - Eastern Europe, index of responsible companies, initiated by the **Warsaw Stock Exchange**;

- Opportunities for professional development, global work environment, and additional benefits for employees are the factors that distinguish the employment in Citi Handlowy. The Bank was awarded by the **Corporate Research Foundation Institute** which for the fifth time awarded the title of **Top Employers in Poland**. the Corporate Research Foundation (CRF) Institute – one of the leading global human resources policy research institution which analyses main benefits, fringe benefits, working conditions, training and development, as well as professional career development and corporate culture. The study is based on an extensive list of questions asked to HR managers as well as on an audit conducted by Grant Thornton;

- **Citi** received the prestigious Euromoney monthly award for the **Best Global Bank 2015**. As emphasized by the jury, the award is a distinction for those financial institutions whose practices are exemplary. Citi Handlowy consistently implements these practices both in terms of services for institutional clients and individual clients.

VI. Significant risks related to the activities of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Significant risks and threats related to the Group's operating environment

1.1 Economy

The slowdown in some emerging economies can contribute to the weakening of activity in the euro zone which could lead to a reduced demand for Polish products. These changes would affect the financial position of the bank's clients. Additionally, a threat to economic growth at major trading partners of Poland may be uncertainty about the outcome of the referendum on the future of the United Kingdom in the European Union.

Planned changes related to expenses and taxes in Poland may significantly affect the economic conditions. On one hand, increased transfers to households will improve their income situation, acting as a potential boost to consumption. On the other hand, there remains a significant uncertainty regarding the impact of tax changes on the performance and stability of financial institutions and companies in Poland.

If major rating agencies decide to further downgrade the Poland's rating, this could contribute to a renewed increase in volatility in the financial markets. In addition, it could be associated with an increase in financing costs for Polish companies in foreign markets.

The above factors may affect the Group's performance in the reporting periods to come.

1.2 Regulatory and legal risks

Any changes in the economic policies or in the legal system could have a considerable effect on the Group's financial condition. In terms of banking sector regulations, a particularly important role is played by Acts and related implementing regulations, including regulations of the Minister of Finance, resolutions of the Management Board of the National Bank of Poland ("NBP") and orders of the Chairman of NBP, and resolutions of the Polish Financial Supervision Authority ("PFSA"), as well as regulatory recommendations.

Among the above-mentioned legal and supervision regulations the most important include:

- admissible concentration of exposure and debt limits (Banking Law);
- maximum level of equity investments in the capital market (Banking Law);

- liquidity, solvency and credit risk standards (resolutions of the Polish Financial Supervision Authority);
- risk management at the bank (Banking Law, resolutions of the Polish Financial Supervision Authority);
- calculating and satisfying reserve requirements (NBP Act, Banking Law, resolutions of the Polish Financial Supervision Authority and resolutions of the NBP Management Board);
- regulations concerning taxes and related instruments;
- Act of 7 July 2005 amending the Civil Code and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such loan;
- limits regarding extension of mortgage-secured foreign currency loans, specified in Recommendation S and Recommendation S(II) of the Commission for Banking Supervision;
- Act of 16 February 2007 on protection of competition and consumers;
- Act of 23 August 2007 on counteracting unfair market practices;
- Act of 16 November 2000 on combating money laundering and terrorist financing;
- Act of 29 July 2001 on consumer credit;
- Act of 12 May 2011 on consumer credit;
- Act of 19 August 2011 on payment services;
- Act of 30 May 2014 on consumer rights;
- Act of 29 July 2005 on trading in financial instruments;
- Act of 27 May 2004 on investment funds;
- Act of 28 August 1997 on organization and operation of pension funds;
- Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into organized trading and on public companies;
- Act of 6 December 2013 amending certain Acts in connection with the determination of the terms of payment of pensions from the resources of open pension funds;
- Act of 14 December 1994 on the Bank Guarantee Fund (BFG);
- Act of 28 February 2003 – Bankruptcy Law, including the so called consumer bankruptcy;
- Act of 15 May 2015 – Restructuring Law;
- Act of 5 August 2015 on the consideration of complaints by entities of the financial market and the Financial Ombudsman; Act of 5 August 2015 on the macro-prudential oversight of the financial system and crisis management in the financial system;
- Act of 15 January 2015 on bonds;
- Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 and European Commission implementing regulations (the so called "EMIR").
- 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 amending the Regulation (EU) No 648/2012 together with implementing legislations;
- Recommendation A of the Polish Financial Supervision Authority on management of risks related to derivative transactions conducted by banks;
- Recommendation T of the Polish Financial Supervision Authority on good management practice concerning risk of retail credit exposure;
- Recommendation I of the Polish Financial Supervision Authority on management of foreign exchange risk in banks and rules of performing transactions subject to foreign exchange risk by banks;
- Recommendation M of the Polish Financial Supervision Authority on the management of operational risk at banks;
- Recommendation U on good practices in bancassurance;
- Recommendation D concerning management of IT areas and ICT environment security at banks. The recommendation has replaced the previous Recommendation D. As compared to the previous version of Recommendation D, provisions have been implemented among others in relation to management of data (including data quality), principles of co-operation between business and technology, the management information system for IT and ICT security and cloud computing. Supervisory expectations have also been updated and clarified as regards strategic planning in the IT area and security of the ICT environment, implementation of new and modification of existing IT solutions, co-operation with third-party service providers and management of risks connected with ICT environment security;
- Recommendation P on the management of the banks' financial liquidity risk;
- Recommendation W on the management of the banks' risk of models;
- Guidelines of the Polish Financial Supervision Authority of 16 December 2014 on the management of IT and ICT security areas at pension fund management companies, insurance and reinsurance companies, investment fund management companies, entities providing capital market infrastructure, and investment firms. The guidelines are a version of Recommendation D on the management of IT and ICT security areas at banks adapted to the needs of individual sectors. The PFSA expects appropriate measures aimed at implementing the standards set forth in the guidelines to be implemented by the entities subject to supervision no later than by 31 December 2016. These

guidelines apply to the Bank in the scope of Brokerage Services Management Unit operations as well as to the DMBH brokerage house;

- Corporate Governance Principles for Supervised Institutions issued in PFSA Resolution of 22 July 2014. The Principles are a set of rules governing internal and external relations of institutions supervised by the PFSA including their relations with shareholders and clients, their organization, the internal supervision function and the key internal functions and systems, as well as statutory bodies and their cooperation. The Principles apply to the Bank as well as to the DMBH brokerage house

Legal and supervisory regulations which may impact the activity of the Bank in the coming periods:

- Act of 15 January 2016 on the tax on certain financial institutions;
- Amendment to the Act on investment funds whose purpose is to implement Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010. Additionally, the draft implements Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions and partly Directive 2013/14/EU of the European Parliament and of the Council of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings. The draft act was sent to the Parliament on 1 December 2015. The Act provides for a 6-month grace period during which undertakings can adjust their activities to amended regulations;
- Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, which impacts the activity of custodians, took effect on 22 July 2013. Regulation of 19 December 2012 applies, among others, to duties of the depositary in relation to alternative investment funds;
- On 18 December 2015 a draft of the Commission Delegated Regulation (EU) of 17 December 2015 supplementing Directive of the European Parliament and Council Directive 2009/65/EU in relation to the duties of depositaries was published. The draft Regulation of 17 December 2015 covers the duties of depositaries to open investment funds;
- According to the opinion of the PFSA of 21 August 2013, in the absence of implementation into the Polish legal system of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 and in the absence of potential identification of the addressees of legal standards indicated in the Regulation within the Polish legal system, it cannot be applied in the Polish legal system. According to the PFSA, until the effective date of the relevant implementing act in which the national legislator definitively decides which entities can be classified as AIFM and AIF, the question of applicability of the Regulation to specific entities remains moot. The changes resulting from the Act and from the EU Regulation will have an impact on the Bank’s performance of its role as a custodian and will require amendments to agreements signed by the Bank;
- Draft Act amending the Act on capital market supervision and certain other Acts. The amendment aims to modify the system of financing the cost of activities of the Polish Financial Supervision Authority and its Office. Furthermore, the Act extends the contributions of specific categories of entities active in the capital market towards the cost of market supervision. The Senate passed the Act without amendments on 10 July 2015. The Act comes into force on 1 January 2016.
- On 23 December 2015, in the EU Official Journal the Regulation of the European Parliament and of the Council (EU) 2015/2365 of 25 November 2015 on the transparency of transactions financed with securities and re-use and amending Regulation (EU) No 648/2012 was published (OJ L 337/1). The aim of the regulation is inter alia to increase the transparency of transactions financed with securities. It imposes a duty, among others, on counterparties (this term includes the banks), investment companies (UCITS) and their managers, AIFM, to report to a trade repository any repo, sell/buy-back, securities lending transactions. The regulations enter into force on 12 January 2016 but the obligation to report the transactions will take effect at the earliest from the beginning of 2017 depending on the date of entry into force of the implementing rules;
- On 12 June 2014, the MiFID II (Directive) and MiFIR (Regulation) (jointly "MiFID II") were published in the Official Journal of the EU. The regulatory package MiFID II comes into force in January 2017 subject to any changes in laws or delays in the implementation to the legal system. MiFID II will replace the MiFID I package currently in force (which includes MiFID 1 Directive, MiFID 2 Directive and MiFID Regulation). MiFID II package will also include other implementing acts such as implementing and delegated regulations. The new regulations aim to build a more secure, reliable, transparent and more responsible financial system. MiFID II, in particular, makes changes in the structure of the organization and regulation of markets by introducing, where it considers appropriate, among others, organized trading facilities (OTF) and multilateral trading facilities (MTF), greatly expands the existing principle of transparency in the financial market transactions (transparency before and post-trade), strengthens the existing powers of EU and local regulators (including but not limited to EBA, ESMA, PFSA), including the powers of intervention of regulators as to the prohibition and restriction of the activities on the financial market. An important part of the package MiFID II are the regulatory measures aimed at strengthening the protection of investors/clients through the introduction of organizational improvements in the protection of client assets and the area of product management (product governance), increasing the range of products covered by the regulation of MiFID, the changes in the classification of clients, further strengthening the existing regulations regarding incentives (monetary and non-monetary benefits, accepted or handed over in connection with that service), management of conflicts of interest, and a number of other measures to ensure compliance with the rules of fairness and professionalism in services in the financial market;

- The draft Act on the Bank Guarantee Fund, the deposit guarantee scheme and a forced restructuring. The draft Act is a result of the need to implement two EU legislations: Directive of the European Parliament establishing a framework for the conduct of recovery and resolutions activities in relation to credit institutions and investment firms (BRR Directive) and Directive of the European Parliament and of the Council on Deposit Guarantee Schemes (DGSD Directive). This Act will replace the existing Act on the Bank Guarantee Fund. The draft Act is at the pre-parliament stage. Prepared solutions as to forced restructuring comprehensively govern crisis management to an entity which is at risk of insolvency through:
  - The establishment of the requirement to prepare respective solutions at the stage of forced restructuring plans including the determination of the requirement to maintain a minimum level of liabilities subject to redemption or conversion;
  - Defining the conditions and sources of financing for any actions taken;
  - Allowing the use of the full range of instruments, and
  - Giving the Bank Guarantee Fund a permission to provide various forms of support to the entity assuming ownership instruments, property rights or obligations of the entity under restructuring.
- Until 12 June 2014, the following were published in the Official Journal of the European Union: Regulation No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC – Market Abuse Regulation (MAR), and Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse – Market Abuse Directive (MAD). The adoption of the Market Abuse Regulation will entail among others:
  - Extension of the existing market abuse regulations, among others to abuse of electronic trading platforms;
  - Introduction of a clear ban of abusive strategies based on high frequency trading;
  - Declaring guilty of market abuse and penalizing with severe fines those persons who manipulate reference rates such as LIBOR;
  - Introduction of a ban of abuse in commodity markets and related derivatives market, and strengthened cooperation among financial market and commodity market regulators;
  - Imposing fines of at least three times the gains from market abuse or at least 15% of turnover for enterprises (Member States may additionally decide to increase the minimum rates).

  The aforementioned legal acts took effect on 3 July 2014, which started the period of 24 months when the Commission must adopt implementing measures for the regulation and the Member states must transpose the Directive in national law.

  The two-year preparatory period before the effective date of the MAR will enable the issuer community to develop new reporting standards acceptable to the regulator.

- On 23 December 2015, in the Official Journal of the European Union the Directive of the European Parliament and of the Council (EU) 2015/2366 of 25 November 2015 on payment services in the internal market amending Directives 2002/65/EC, 2009/110/EC, 2013/36/EU and Regulation (EU) No 1093/2010 and repealing Directive 2007/64/EC (the so-called PSD 2) was published; its aim is to eliminate regulatory gaps in the field of payment services, to provide greater legal clarity and consistent application of the framework legislation throughout the European Union, to ensure existing and new market participants equal operating conditions, allowing the dissemination of new payment methods among a wide range of users, to ensure a high level of consumer protection and as a result, to improve the efficiency of the whole payment system and harmonization of the market in the area of payment services. The deadline for transposing the directive into national laws expires on 13 January 2018;
- Draft Recommendation of the Polish Financial Supervision Authority concerning internal governance rules in the Banks. The draft in the opinion of the Authority refers to the key issue from the point of view of sound and prudent management of the bank, crucial for the proper functioning of the banking sector. The Recommendation contains provisions on the banks' business conduct, but also on the internal governing bodies of the bank, its employees as well as shareholders and stakeholders, especially clients of the banks and on building relationships in terms of:
  - Risk management - both the organization of the risk management system as well as various essential elements of the risk management process;
  - Management of conflicts of interest, not only at the level of the members of the Management Board and the Supervisory Board, but also other employees of the bank;
  - Internal relations and external relations with clients – among others by defining the bank's applicable remuneration systems relating to all employees, codes of ethics or principles for introducing new banking products;
  - Relations with shareholders – including dividend policy, consistent with the strategy of the Bank's operations.

1.3 Competition in the banking sector

In 2015, the economic growth rate remained at a relatively high level. The GDP annual change amounted to 3.6% which was the result 0.2 pp better than in 2014. From the perspective of income of the banking sector an unfavorable factor was the low level of interest rates. The Monetary Policy Council in response to persistent deflation in Poland decided in March 2015 to further cut the reference rate by 50 basis points thus bringing the reference rate to a new historic low of 1.50%. The more severe, however, was the accompanying decision to lower the lombard rate following which the maximum interest rate on loans was reduced from 12% to 10% per annum. Also the reduction of interchange fees contributed to a decrease in revenues in the sector. In the fourth quarter of the last year, there was also the bankruptcy of one of the co-operative banks. Covering the liabilities of the institution resulted in a decrease in the profits earned in the sector by ca. PLN 2 bn. The pressure on banks' financial results was reflected in cost cutting initiatives and in the introduction of changes to the tables of fees and commissions. Many banks also decided to carry out one-off transactions that could improve the profits, as well as other activities affecting the increase in other income. These measures, however, failed to compensate a decline in profits compared to the past year, among others due to the growth of other charges imposed on the banks, including increased contributions to the Bank Guarantee Fund.

In 2016, banks will continue adaptation measures based on adapting business models to new market conditions that increase operating costs. A significant risk to the banking sector is still an unsolved problem of mortgage loans denominated in foreign currencies. Solutions proposed so far, resulting in loan currency conversions, according to preliminary estimates, generate costs that could endanger the stability of the banking system. On the other hand, the opportunity for banks will however lies in a continued strong economic growth and a resulting further increase in lending on consumer loans.

Recent years brought an increased activity in the market of mergers and acquisitions in the financial sector. In the future, some consolidation efforts, particularly among medium-sized institutions, could be expected.

An important challenge facing the banking sector is also the situation in the sector of SKOK (savings and credit unions). A part of the unions is subject to recovery proceedings under the supervision of the Polish Financial Supervision Authority, and their future remains uncertain. A possible bankruptcy of subsequent unions could mean the need for further use of funds deposited in the Bank Guarantee Fund. The obligation to supplement any used funds falls mostly on the banking sector which in subsequent years could adversely affect the profits of financial institutions.

2. Significant risks and threats related to the Group and its activity

2.1 Liquidity risk

Maturity mismatches between loans and the underlying deposits are a typical aspect of banking activity, and these occur at the Bank as well. They could give rise to potential problems for current liquidity were there to be a build-up of large payments to customers. Management of the Bank’s assets and liabilities, including regulation and control of liquidity risk, is the responsibility of the Assets and Liabilities Committee (ALCO), which maps out a strategy later implemented by the Financial Markets Sub-Sector.

The main task of the Assets and Liabilities Management Committee is management of the balance sheet structure to increase its profitability, defining admissible limits of financial risk undertaken in various areas, coordination of the pricing policy in terms of interest rates and making decisions on transfer pricing in the Bank.

As part of liquidity management activities, the Assets and Liabilities Committee of the Bank is responsible for the development and implementation of a uniform policy of liquidity risk management in the Bank, approves annual liquidity plans, funding plans of the Bank’s assets and the Bank’s liquidity limits, as well as liquidity contingency action plans. It also determines the threshold values (limits) for various sources of funding and conducts regular reviews of liquidity risk reports.

The Bank’s deposit base is stable and diversified. Furthermore, the Bank has a large portfolio of liquid securities, good access to interbank funding and a high equity. The level of liquidity risk in 2015 was low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and on its own account, and holds open foreign exchange positions within established limits. Therefore, the Bank is exposed to foreign exchange risk. Control over foreign exchange risk is the responsibility of the Market Risk Department, which cooperates in this area with the Financial Markets Sub-Sector responsible for managing liquidity and the currency position. Market risk of the Bank’s proprietary positions was low in 2015.

2.3 Interest rate risk

As is the case with other Polish banks, the Bank is exposed to a risk of mismatch between the timing of changes in interest rates on its assets and on the underlying liabilities (revaluation gap risk), as well as the risk that debt securities and interest rate based derivatives may be sensitive to market interest rate fluctuations (pricing risk). In terms of revaluation gap risk, interest rate risk may arise where it proves impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. This risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk can arise when changes in the market rates have an adverse effect on the valuation of instruments in the trading portfolio and, consequently, on the Bank’s financial result or on the valuation of the portfolio of securities available-for-sale and, consequently, on the Bank’s equity. The management of interest rate risk is a responsibility of the Assets and Liabilities Committee of the Bank which, among others, determines the Bank’s interest rate risk pricing policy. The interest rate risk level in 2015 was medium to high for trading portfolios and for banking portfolios.

2.4 Credit risk and counterparty risk

Credit risk and counterparty credit risk represent a potential loss resulting from a customer’s inability to pay its contractual obligations due to insolvency or other reasons, taking account of collateral, unfunded credit protection and other loss mitigating agreements. In the case of counterparty risk, the Bank’s exposure is variable over time. If the transaction is not settled in time, the Bank runs an additional risk of changing the contract value. The Bank sets limits for the credit risk and counterparty risk it takes at the level of exposure to a given entity or a group of related entities. In addition, portfolio limits are introduced to support the process of management and ongoing monitoring of the credit portfolio. The active process of portfolio quality management includes both assigning appropriate risk ratings and classification to facilities as well as the application of remedial and debt collection actions. For credit exposures, the Bank makes impairment write-offs as required by law. The Bank’s Management Board is of the opinion that the current level of impairment losses is adequate. As the possibility of change in the external environment or other circumstances that could adversely impact the financial condition of the Bank's customers always exists, there is no certainty that some future need for adequate provisioning against the existing asset portfolio will not have an adverse effect on the Bank's financial position or that the provisions and the impairment losses and collateral in place will prove sufficient to absorb the possible losses arising out of lending.

2.5 Operational risk

Operational risk is defined as the risk of loss resulting either from inadequate or failing internal processes, people or technology systems or from external events. It includes reputation risk, associated with operational risk events, business practices or market conduct, as well as legal risk and compliance risk. Operational risk does not include strategic risk or the risk of potential loss caused by decisions to accept credit risk, market risk, liquidity risk of insurance business risk.

The strategic objective of operational risk management is to ensure a coherent and effective system of operational risk identification, assessment, mitigation, control, monitoring and reporting and to ensure effective reduction of exposure to operational risk and, consequently, to reduce the number and severity of operational risk events (policy of low tolerance for operational losses).

Another objective of operational risk management is to fully integrate operational risk management processes and business decision making processes (i.e. the business strategy will be supported by operational risk assessment and business will be evaluated on the basis of pre-defined indicators of operational risk and controls).

The Bank's operational risk management system is structured to ensure correct risk management at each stage (identification, assessment, counteraction, control, monitoring and reporting).

The Management Board of the Bank is responsible for the development, implementation and operation of the appropriate operational risk management system by implementing appropriate internal regulations, and for ensuring consistency of the operational risk management system with the Strategy of the Bank and for the proper functioning of the system within the organization by analyzing information that allows the assessment whether the system is adequate for the operational risk profile. Where necessary, the operational risk management system is improved by making appropriate corrections.

The implementation of the strategy by the Management Board of the Bank is evaluated by the Supervisory Board supported by the Audit Committee and the Risk and Capital Committee on the basis of summary reports tabled by the Management Board at least once per year, which define the scale and types of operational risk to which the Bank is exposed, the operational risk management methods, the probability of materialization of operational risk, an assessment of the potential adverse impact of the operational risk management method, and the outcome of monitoring of the operational risk profile and operational risk appetite. Following its assessment, the Supervisory Board may request a revision, where necessary.

The Audit Department is responsible for independent assessment of the effectiveness of operational risk management processes and for assessment of the adequacy and effectiveness of the operational risk management system, including its regular reviews. Internal and external audit findings are integrated into the management information system and into the decision making process related to risk management and management of the Bank.

The total amount of gross operating losses booked in 2015 does not exceed the accepted operating risk appetite.

VII. Development prospects for the Capital Group of Bank Handlowy w Warszawie S.A.

1. General development objectives of the Group

The Group focuses on areas where it has a significant competitive advantage and this is where it takes a number of initiatives aimed at increasing the attractiveness of the services offered. In the retail client segment the initiatives focus on the credit card market and on services for wealthy clients while in the corporate segment operations relate largely to providing services to global companies and the largest domestic players. Other important areas of the bank's active involvement include: the forex market, transactional banking and securities custody as well as institutional brokerage activities.

One of the main priorities of the Group will be an effective acquisition of new customers on the target markets and deepening of relations with existing customers. Both in the segment of institutional banking and retail banking the Bank focuses on acquiring operating accounts and increasing product coverage of the clients.

Innovation and top quality service are the pillars of the success of the strategy adopted by the Bank. Constantly adding innovative solutions that meet the needs and expectations of our clients to the offering enables the Bank to effectively compete in the market for financial services and set new trends in the development of the banking sector.

Adapting to changing client needs and expectations is one of the key challenges for the Bank. On one hand a reduced frequency of visits to branches is observed and on the other hand there is a growing importance of remote channels in customer service. The Bank, in order to respond to these changes, is continuing the process of optimizing the distribution network based on the concept of Smart outlets located in big cities. At the same time, emphasis is placed on the development of remote channels and increasing sales by using mobile solutions.

One of the strategic objectives of the Group is still to build value of the Bank by improving operational effectiveness and leveraging the market advantage resulting from its strong capital position and high liquidity. The strong position of the Bank is a guarantee of safety for clients who translates into a high confidence in the institution, and the continuous improvement of the quality of services and processes allows to build a strong brand of the Bank. A further development of new technologies will allow the development and deployment of breakthrough innovations which will strengthen the market position of the

Bank. For clients it is essential to effectively benefit from the global profile of Citi Handlowy, enabling them to access services provided by the Bank from any place in the world.

1.1 Institutional banking

In the area of institutional banking the Bank consistently pursues the strategy, maintaining a leading position in the segment of international corporations and the largest local companies, as well as strengthening its position among the SMEs. The Bank is planning to keep its position by acquiring new clients and expanding relations with existing clients in selected sectors as well as by providing support to clients planning international expansion (Emerging Market Champions initiative). The goal of the Bank is to be the Strategic Partner for Polish companies and to actively support the expansion of the Poland's industry. In terms of the product offering, the Bank also plans to further intensify cooperation with clients having the potential to conduct foreign exchange transactions, looking for products in the field of trade finance and institutional brokerage business.

It is an objective of the Bank to enhance effectiveness by improving processes, focusing on innovations and raising the quality of services. The Bank plans to maintain its leading position in the field of foreign exchange transactions, and will focus on opening and running operating accounts.

Additionally, the Bank believes, that the activities of securitization is one of the business areas, which has recently gained in importance. The Group takes a decision to invest in securities securitization based on economic calculation, measuring the return on investment against potential risks. Now, securitization is a standard and widely used product in global markets. Its importance also increases in the Polish market. The Group intends to be an active participate in this market segment.

1.2 Brokerage activity

The key factor that affects the performance of DMBH are trading in shares generated by institutional clients (both domestic and foreign). From the point of view of the activities of the Bureau, significant risks are potential changes in the functioning of the Open Pension Funds which may lead to a further reduction in demand for the shares of companies listed on the WSE from this segment of clients. In addition, the lack of significant inflows of new money to domestic equity funds largely reduces their demand for equity instruments.

1.3 Retail banking

In 2016, the Bank will consistently continue to pursue the strategy designated in previous years in all aspects of client segmentation and business model. The Bank intends to develop a range of products and services in such a way as to provide the best value and as much as possible to meet the financial needs of clients in target segments.

One of the strategic objectives will be to consolidate its leading position in the banking services for affluent clients. To this end, the Bank will continue to develop products for Citigold clients and its unique offer implemented on the market at the end of 2015 for the most affluent clients - Citigold Private Client (CPC). The Bank is planning to implement new investment products and exceptional privileges, as well as to introduce online solutions for wealth management convenient for the clients. For these groups of clients, the Bank will continue to cooperate with other Citi entities in the world, providing the clients with unique experiences in the area of global banking.

The Bank will also focus on attracting the so called wealthy aspiring clients, by developing Citi Priority offering for them. Concerned about the expectations of this segment of clients, the Bank will implement package solutions, deepening their deposit relations with the Bank and at the same time addressing their need for loans.

The Bank will seek to strengthen the leading position in the credit card market by offering products from a global Citi product range, accepted all over the world and offering exceptional value for the client, e.g. in the form of loyalty programs. An important objective will be also to increase the market share of unsecured loan products by meeting the credit needs of the growing number of clients with a competitive offering of cash loans or instalment products, as well as innovative, fast processes.

Given the need for a simple and quick handling of finances, the Bank will continue to invest in developing new technologies and improving the mobile and Internet platforms. In addition, the Bank intends to continue to pursue the strategy for the network of retail branches, focusing the presence of its outlets in major cities in Poland, relying to a large extent on the format of Smart branches and Citigold Centers.

VIII. The Bank's community initiatives and cultural sponsorship

1. Corporate Social Responsibility (CSR)

The Bank is socially responsible and sensitive for the needs of its partners, both business and social ones. All the Bank's operations are undertaken in accordance with the needs of its clients and the communities in which it operates.

The Bank's activity in the field of CSR includes workplace and market environment, local communities and the environment protection. The strategic goal is to become the company defining the standards of institutional social responsibility (CSR – Corporate Social Responsibility), both outside and inside the organization. Investments are continued to support local communities, carried out for the public good in such areas as financial education, promotion of entrepreneurship, local development and protection of cultural heritage. The Bank's mission in this area is achieved through the Kronenberg Foundation at Citi Handlowy founded in 1995. The Bank's social engagement is appreciated in independent rankings and listings, such as the Respect Index, or the Ranking of Socially Responsible Companies.

1.1 Client relationships – market practice

The Bank's mission and its greatest ambition is to build client relationships based on trust and shared growth aspirations. The strategic goal is to achieve a level of client satisfaction whose natural consequence will be unwavering loyalty to the Bank and a community of ambassadors who promote the Citi Handlowy brand as a partner in financial decisions. Therefore, we have been taking several measures, based on research and client feedback, to continuously improve and raise the quality of service standards and our product range.

One of our responses to the changing expectations of clients is to adapt the strategy of client service based on a network of traditional branches to the emergence of new technologies. Today, more than 95% of banking transactions are effected by clients on their own using a mobile application or the e-banking system. We continue to develop our network of modern branches of the Smart Banking Ecosystem. What clients may do on their own at such an outlet is to conduct a financial transaction, withdraw/deposit cash using foreign currency ATMs, obtain a credit card or learn, using an interactive screen, about special discount offers for Citi card holders.

Accurate information – advertising ethics

Since over 6 years a program to ensure transparent client communication and a good match between our product range and clients' needs is continually developed at the Bank. Communication requirements have been set as part of projects like "Treating Customers Fairly" and they must be met during product campaigns. Therefore, despite a dynamically changing market environment, clients are certain that our product communications are accurate and transparent. Bank guarantees clarity of agreements and transparent communication of costs, risks and potential benefits. All employees who are responsible for our product range have been trained in transparent communication standards and are required to strictly follow them. Moreover, the Bank's policies in respect of and high standards of customer service, complaint handling and responsible marketing are governed by internal rules and regulations, e.g. "The Advertising Ethics Code" and "The Ethical Business Practices of Bank Handlowy w Warszawie S.A."

Client satisfaction surveys

The Bank polls both its institutional and retail clients on a regular basis. The NPS (Net Promoter Score) is the key service quality indicator. The NPS indicator makes it possible to gauge clients' willingness to recommend the Bank and, therefore, their satisfaction with the Bank's services. Surveys cover the key client segments of the Bank, the major contact channels (i.e. electronic banking, telephone service, branch offices), "moments of truth" (key interactions, e.g. product purchase). Ratings and comments are analyzed by a team which studies client experiences, and the findings of such analyses and proposed improvements are discussed at monthly meetings with the Bank's management team. Owing to our disciplined approach, Bank managed to improve the score in respect of each key NPS indicator in 2015.

The introduction of Citi Mobile, a new mobile application, was an example of actions taken in response to clients' expectations. The current version of the application offers functionalities requested by clients from their Relationship Managers and on the official Citi Handlowy's Facebook fanpage. Using your mobile phone, you can now activate your card, make money transfers to any recipient, associate your payment card with foreign currency accounts with just a couple of clicks or check your account balance without logging on to the application.

Based on online users' feedback, improvements were also made to Citibank Online, including: online access to mortgage records, a new structure of navigation on product pages and the card replacement function.

Many awards and distinctions received in 2015 demonstrate the Bank's strong position in creating a product range matching the clients' needs. This included recognition for the Citi PremierMiles Credit Card for travelers which was one of the finalists in the Best Card for Business Travel category of the 2015 Business Traveler Poland Awards.

The Citi Simplicity Credit Card was recognized for its communication strategy. The TV commercial for that new product was considered the best card product campaign in Polish media in 2015. The purpose of the campaign was to emphasize the simplicity of the product, clear rules and ease of managing one's finances.

Moreover, Citi Handlowy was, for the first time, awarded five stars in the Forbes private banking rating.

Complaints

Client reports and complaints indicating potential areas for improvement are also carefully reviewed. One of the changes made recently in the area of complaint handling was the implementation of a standard response time of one day for Gold Clients and four days for the remaining Clients.

Owing to that, the Bank remains the leader among financial institutions in terms of complaint handling time.

In order to communicate with clients more effectively, the Bank established the position of Client Spokesman in 2009. Clients may share their comments and suggestions about the operation of the Bank with the Spokesman by email.

The Spokesman's initiatives have many a time contributed to changes, both systemic ones and changes within existing processes, which significantly improved client satisfaction with the Bank's services. Moreover, the possibility to contact the Spokesman directly and submit suggestions, comments or raise doubts gained recognition from clients.

The capabilities of contact with the Bank for on-going service purposes are also steadily developed – a chat area has been made available on the Bank's website for an operator to quickly respond to questions about products or services available online.

Data protection and client privacy

The Bank undertakes to protect private and confidential client information and use it appropriately. The relevant rules are described in the Bank's internal document entitled "Principles of personal data protection at Bank Handlowy w Warszawie S.A." The Bank collects, stores and processes clients' personal information as specified by national laws and regulations for the purpose of offering its clients products and services which better meet their financial needs and enable them to achieve their financial goals. With that in mind, the Bank uses its best efforts to implement and maintain appropriate systems and technologies and appropriately train its employees who have access to such information. Suppliers whose services the Bank uses are likewise required to protect the confidential nature of data, including personal and confidential data, received from the Bank. The Bank also complies with its own strict internal standards and regulations in respect of the confidential nature and security of information and personal data (IT system management standards, information security standards, general security regulations). In addition to that, each employee of the Bank is required to protect any and all personal and confidential client data, seeing to it that such information is only used for valid purposes related to their work and made available only to authorized individuals and organizations, and appropriately and securely stored.

The Bank follows the highest information security standards. It regularly undergoes audits in that respect which are confirmed with certificates of conformity to the ISO 27001 and ISO22301 standards which cover all the processes, products and services provided by the Bank to its Clients.

1.2 Workplace practices

A strategic goal of the Bank is to attract, develop and retain most talented people who share the values followed by the Bank:

Common objective	One team striving to achieve a common objective: to ensure the best service to customers and stakeholders.
Responsible business	Act in a transparent, reasonable and responsible manner.
Innovation	Continuous improvements of solutions offered to our customers by providing them with exhaustive information on our products and services; delivery of world class products.
Talent development	A team of talented and highly specialized professionals who offer excellent service, show initiative and can meet even the most difficult challenges.

The Bank offers to its employees a safe and friendly place to work, where they can work, engaging their energy and having a sense of their personal achievement, satisfaction and opportunities for personal development. The development of employees is supported by the implementation of such measures as training, commitment to the demanding projects, as well as the evaluation process, whereby employees receive feedback on their strengths and areas that still need to be improved. The Bank has in place a personnel policy, accompanied by documented, measurable and regularly monitored goals.

The process of selection of, but also development of the staff is extremely important for the development of the Bank. For this purpose, for all the employees the internal portal www.KarierawCiti.com.pl was made available through which anyone can apply for any interesting position within the Bank's structures and in other companies belonging to the Group of Citi.

In addition, the Bank provides employees a wide range of non-wage benefits that meet their personal and social needs.

As part of non-wage benefits, employees benefit from the employee pension scheme, life insurance, sport package, private medical care, social benefits fund and banking products offered on preferential terms. Employees also have the ability to work flexible hours to allow for better implementation of personal and professional responsibilities.

Taking care of work safety, the Bank seeks to ensure optimum working conditions for all employees with special emphasis on health and safety at work.

Employee satisfaction surveys

Every year, the Bank examines the moods of employees in the survey called the Voice of Employee. The survey is the study of employee satisfaction and engagement. A participation in the survey is voluntary. Questions that employees have to respond relate among others to: communication, development opportunities, meritocracy, relations with superiors and colleagues, taking part in decisions, the balance between professional and personal life, as well as the diversity of values and ethical principles that guide the Bank.

Filling the surveys is the first stage of activities related to the work on the study of sentiment among employees. The next stages are the analysis of the results, group interviews designed to deepen the results and preparation of action plans improving the survey, implementation and communication of results to employees. In 2015, the survey questionnaire was filled in by more than 88.5% of eligible employees.

Workplace diversity

In the Bank diversity is seen as a source of strength. Therefore, the priority is to promote the culture in which opportunities are available to all regardless of any distinguishing differences.

All employees of the Bank are obliged to act in accordance with the law, internal regulations and standards. The Bank strives to create optimal opportunities for employees to use their potential, providing them with the opportunity to complete professional development and nurture their diversity with respect for the dignity regardless of sex, race, religion or sexual orientation. Employees are required to treat their colleagues with respect. The above-mentioned expectations of the Bank are included in the "Principles of Conduct for Employees of Bank Handlowy w Warszawie S.A.".

Since 2013, the Bank is a signatory to the international initiative "Diversity Charter" which obliges the company to ban discrimination in the workplace and to take measures for the creation and promotion of diversity and expresses its readiness to engage all employees and business and social partners in these activities.

Each year, the Bank organizes the Diversity Week during which employees are invited to participate in activities such as workshops, training sessions and panel discussions.

The Bank also supports bottom-up employee initiatives which are taken by the employees themselves, among other CitiWomen and CitiClub.

The mission of CitiWomen is to create favorable conditions for the development of women's professional development, assistance in overcoming barriers and providing opportunities to pursue ambitions while maintaining a balance between work and private life. Goals that CitiWomen Poland (CPW) puts in front include: supporting women working in Citi & Citi Handlowy in Poland in the discovery and release of their potential by providing additional training opportunities, networking and the exchange of experiences, as well as the discovery and development of women's talents and helping to improve leadership skills. Its mission is pursued by CitiWomen Poland through a variety of activities which include, among others: organizing team building and networking meetings; organizing training courses, workshops and lectures; creating project teams for immediate needs, including teams coordinating the organization of CWP initiatives in Citi Group centers outside Warsaw; sharing and exchanging information between employees, including through their own Intranet site; encouraging cooperation between women in various stages of professional development. CWP activities are coordinated by the Steering Committee (SC) – a group of the most active supporters of the initiative elected in an open vote.

CitiClub was established in order to organize free time including diverse cultural, sports and tourist activities. The club promotes a wide integration of employees which affects the sense of job satisfaction. Within CitiClub sporting projects "Citi Socially Active" are held in combination with elements of charitable collections of funds for the needy.

Dialogue and freedom of association

In the Bank there are two trade unions: "Solidarity" - Mazowsze Region Intercompany Trade Union Organization No. 871 at Bank Handlowy w Warszawie S.A. and the Trade Union of Employees of Bank Handlowy w Warszawie S.A. Cooperation between the employer and trade union representatives takes place in the spirit of partnership and common purpose which are the highest standards in all labor relations.

Code of Conduct for Employees of Bank Handlowy w Warszawie S.A.

This Code provides an overview of the most important internal regulations in force at the Bank. All employees of the Bank are obliged to act in accordance with the applicable laws, internal regulations and standards accepted in the Bank. The Bank strives to create optimal opportunities for employees to use their potential, providing them with the opportunity to develop and nurture their diversity with respect for the dignity regardless of sex, race, religion or sexual orientation. The Code includes a formal process solutions for reporting violations. The Bank operates the Ethics Line where employees can report issues regarding the selection of the best course of action in a particular situation or in the case of justified suspicions or information about a potential violation of laws or ethical standards and regulations of the Bank. Reports to the Ethics Line can be made by telephone or e-mail. Reports can also be submitted anonymously.

Every year, the Bank employees receive online training on the Code of Conduct which is mandatory.

Each newly hired employee receives the content of the Code of Conduct and is obliged to sign a statement confirming having read them and compliance therewith in daily work.

Employee voluntary work programme

The Bank has the largest in Poland employee volunteer program coordinated by the Kronenberg Foundation at Citi Handlowy. It aims to encourage community initiatives of the Bank's current and former employees. In 2015, a record number of 227 volunteer projects for more than 25,000 recipients was completed. Volunteers (also the ones from outside the organization) were involved in social activities 4,012 times – an increase of almost 37% compared to 2014. As part of their activities the volunteers supported: local communities, residential institutions, social organizations, local government units and animal shelters. The key initiative was the 10th jubilee edition of the Citi Global Community Day. Every year in this project the Bank's employees and their families and friends try to respond to specific needs in communities close to them. In 2015, Citi volunteers in the framework of the Citi Global Community Day carried out 195 social projects for the benefit of nearly 24,000 recipients.

In 2015, key projects, i.e.: Christmas action "Become Santa's Assistant ", team building trips combined with volunteering were continued. In addition, as part of year-long mobilization volunteers were invited to attend meetings of the Volunteer Club, engaging in Senior Volunteering as well as social activities in the framework of regularly sent proposals for individual volunteering.

The variety and number of completed projects shows that the social involvement of the Bank's employees is constantly strengthening and expanding, bringing more benefit to a wider group of beneficiaries – which is confirmed by statistics collected.

In 2015, the Kronenberg Foundation at Citi Handlowy for the fourth time conducted a questionnaire survey among Citi volunteers. Respondents were traditionally answering the questions on improvement of their skills and abilities that have a direct impact on their personal and professional effectiveness and the questions regarding their preferences for involvement in social projects. Citi Volunteers admitted that participation in social initiatives helped them to develop a range of skills and abilities that affect their relationship with the environment and the quality of work. A particularly significant increase in competences was noticed in terms of teamwork, communication skills and organizational skills, but worth noting is also the improvement of adaptability which was acknowledged by 72.7% of the respondents. 87.3% of respondents reported improvement in their capacity to work in a team. Improvement of organizational skills was noticed by 80%, and 84.5% said that participation in voluntary activities significantly influenced the quality of their communication with the environment. In addition, 85.1% of survey participants said that they definitely increased their awareness of social problems and 80.9% that their ability to understand other people improved too. Another interesting result is that employee volunteering affects the perception of Citi Handlowy/Citi companies as the employer for 93.5% of the respondents. For 97% of them the impact is positive or strongly positive.

1.3 Environmental initiatives

One of the important rules of conduct in the Bank is taking care for the environment. The Bank is committed to conducting its business in accordance with the principles of sustainable development. In 2007, a resolution of the Management Board introduced a comprehensive Environmental Management Plan. In 2012, the Management Board accepted the Environmental Policy and implemented the Environmental Management System (EMS). In 2013, the Management Board introduced the Energy Policy and implemented the Energy Management System (EMS). In 2015, the two systems were integrated into a single Environment and Energy Management System. As part of the policies in place the Bank defined the following objectives: increasing the level of waste sorting and recycling; reduction of CO_2 emissions, striving to optimize media management; minimizing the consumption of natural resources; striving for the most efficient energy management; minimizing the use of energy resources; supporting purchases of energy-efficient products and services and ensuring improvements in the energy performance.

Direct environmental impact

As part of the policies in place the Bank identified two main areas of impact on the environment. The first is the direct impact resulting from the activities of the Bank including but not limited to consumption of water, energy, paper, generated waste and pollutants emitted into the air. The second is the indirect impact arising from the provision of services by the Bank. As part of the integrated system (EEMS) the Bank's locations are monitored as for the consumption of electricity, water, gas, heat, amount and type of waste generated and greenhouse gas emissions.

In the years 2012 - 2015 the Bank implemented a number of environmental projects for the modernization of installations and building facilities: among others, modernization of air conditioning installations, including precise, heating substations, BMS automation, and improving the thermal insulation of buildings. The activities confirm the effectiveness of the system by reducing the consumption of utilities in the Bank's buildings.

The activities brought in 2014 tangible results for the Bank and the environment, i.e. a reduction in electricity consumption by 1,789.5 MWh, a reduction in water consumption by 3,514 m3, and a reduction in CO2 emissions by 1,121.9 tons.

In 2015, the Bank successfully passed a supervisory audit for the Energy Management System compatible with the requirements of ISO 50001 standard and re-certification audit of the Environmental Management System compatible with the requirements of ISO 14001.

Employee education

The Bank carries out educational and information campaigns on environmental protection addressed to employees and service providers. These include training and communications, articles made available on the internal Intranet sites, to encourage proper segregation of waste, saving energy and water, spreading knowledge of the Environment and Energy Management System. Every year, the Bank also takes an active part in the actions the Earth Hour and the Earth Week. In 2015, during the Earth Hour power is turned off in 16 branches. During the Earth Week information were published on completed pro-environmental projects, ecological menu was introduced in the cafeteria together with juices squeezed from fresh fruits. The Bank purchased and placed in the buildings for employees containers for electro-waste and conducted a "fall cleaning" associated with the campaign "My city without electro-waste." As part of the "fall cleaning" any waste electronic equipment was handed over to a collection point for this type of electro eco waste. In return, the Educational Fund will provide vouchers for the purchase of teaching aids which will be forwarded to the school in Warsaw's Wola district.

Indirect environmental impact

Under the agreements signed with the bank Kreditanstalt für Wiederaufbau (KfW) and using the funds from Council of Europe Development Bank within the framework of the so-called "Climate Window (SME & Municipal Finance Facility Energy Efficiency Window) the Bank offered in 2015 to its clients two loan programs that finance projects promoting increased energy efficiency. "Energy Efficiency Program" was addressed to the Bank's clients and enabled engagement in investments related to energy efficiency (funds from the program were exhausted in 2015). ELENA Program (European Local Energy Assistance) carried out within the framework of a wider Community initiative - IEE II Program (Intelligent Energy Europe) supports local and regional authorities in achieving the objectives of the Strategy "20-20-20". ELENA is to help clients of public sector entities to engage in investments related to energy efficiency. The final beneficiaries are local or regional authorities and other public entities fulfilling statutory tasks of local or regional authorities. At the end of 2015 under the program the first loan agreement was signed. The program will continue in 2016.

Social commitment and community development

Kronenberg Foundation at Citi Handlowy for years has been active in the areas of entrepreneurship and financial education, protection of cultural heritage and employee volunteering, while paying high attention to the development of local communities.

In 2015, the Foundation conducted ten programs on entrepreneurship and financial education. As every year, "Poles' attitudes to finances" were tested. For eight years the study has enjoyed the recognition of both the media and opinion leaders. It is seen as the most credible and authoritative of its kind in Poland. The Foundation also continued activity in the field of protection of cultural heritage of which the most important is the annual Aleksander Gieysztor Award. Its purpose is to support people or institutions especially meritorious for the protection of the Polish cultural heritage, both in Poland and abroad.

In 2015, the Foundation very successfully implemented the Employee Volunteering Program. The key project, as in previous years, was the Global Citi Day for Community which was held for the tenth time. It was attended by a record number of Citi volunteers, their families, friends and acquaintances. Other activities in the context of employee volunteering included: team building trips with volunteering, the action "Become Santa's Assistant" and individual volunteering.

A contribution to the development of local communities was made through a grant program. In 2015 the Foundation provided 12 grants. It also continued to work with the Responsible Business Forum within RBL (Responsible Business League).

Citi Handlowy Kronenberg Foundation programmes

- **My Finances:** is the largest financial education program for young people in Poland. The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Foundation of Entrepreneurship of Young People. In 2015, the number of students covered by the program amounted to 100,000. The program was pursued by 1,600 teachers;

- **Week for Saving:** an education action in the media which promotes savings and the skills of rational management of personal finances among Poles. Implemented together with the Foundation Think! The goal of the action is to develop systemic changes in education focused on management of personal finances. The media campaign on the occasion of the 8th edition of the research "Poles' attitudes to finances" spread over nearly 3,000,000 people. Under the "Week for Saving" in 2015 debates were held on financial education and labor market challenges facing young people and competitions within the game "First Million". These activities were organized in collaboration with universities: the University of Szczecin, the Warsaw School of Economics and the University of Warmia and Mazury in Olsztyn. The events also featured competence workshops for students organized in co-operation with Citi Handlowy HR experts. In total, debates and competitions were attended by 4,000 people;

- **Building the Financial Independence of Women:** program for women experiencing or exposed to economic violence. The program is implemented in collaboration with the Women's Rights Centre. In 2015, program activities covered 720 participants (600 women and 120 girls) experiencing or at risk of economic violence;

- **Bank Handlowy Award** for an outstanding scientific contribution to development of economics and finance – this competition aims to promote the most valuable theoretical publications in the field of economics and finance. A total of 29 publications were submitted to the 21st edition of the award;

- **"Business Startup" Program:** two-part program which supports young entrepreneurs (assistance in opening and running a business and support for existing companies). It is implemented in cooperation with Academic Incubators of Entrepreneurship. The objective of the project is to promote entrepreneurship among students and to help them make their business vision come true. In 2015, the program was attended by 350 students and 100 start-ups already operating on the market;

- **Hi-Tech Startup –** The project aims to commercialize technology concepts so that their creators have a chance to find employment in organizations interested in their technological solutions, are able to sell their ideas to investors or to start their own business. 50 young scientists/engineers (aged 24-35) were qualified to the project; they specialized in hi-tech (IT, automation and robotics, telecommunications, etc.) and were supposed to present an attractive and coherent strategy for the commercial use of their technology concepts. During the program, the project owners will participate in a series of workshops on the issues of business support, will be able to have their concept incubated within the infrastructure of Academic Incubators of Entrepreneurship and access to laboratories of the Warsaw University of Technology. After passing a rigorous selection process, 10 projects will be identified as "ready investments";

- **Hi-Tech Startup** – program aimed at developing a formula for cooperation of the startup community with academic and business areas, carried out jointly with the Academic Incubators of Entrepreneurship. Thanks to Hi-Tech Startup project creators have the chance to find employment in organizations interested in their ideas, they can sell their ideas to investors or start their own business. The long-term goal of the project is to retain the skills and knowledge of young people in Poland, by creating a center of excellence for hi-tech startups in our country;

- **Business in Women's Hands** is a program addressed to women who want to start their own business carried out in cooperation with the Women Entrepreneurship Foundation. By taking advantage of lectures, training sessions and individual work with mentors, each participant has a chance to successfully launch a business. The objective of the program is to create a cluster of women's companies in Warsaw. In 2015, the second edition of the program was held as part of which 30 companies were established;

- **Micro Company of the Year 2015** is a competition for owners of microbusinesses to promote the philosophy of micro-entrepreneurship. The idea of the competition is to support entrepreneurship, encourage people to set up their own businesses, and recognize and promote the best among them as examples of effective business activities. The results of the 11th edition of the competition were announced on 23 June 2015. The winner was Blix Power Poland sp. z o.o., the producer of an electricity consumption reduction device. A record high number of 528 businesses signed up for the competition in 2015.

- **Emerging Market Champions Competition:** It aims to promote businesses successfully developing their operations abroad. The Emerging Market Champions Award is handed over to both Polish companies which take their business international and to emerging market entities successfully investing in Poland, thus creating new jobs and boosting economic development in the country. The project is accompanied by an annual survey of the business climate in Poland and of the global potential of Polish companies. The award ceremony of the second edition of the competition took place on 1 October during the panel "The world economy in times of uncertainty", organized by the European Forum for New Ideas in Sopot. In the second edition 100 companies were nominated for the competition. The winners were Nowy Styl Group and Samsung;

- **Aleksander Gieysztor Award:** is the most prestigious award given annually to institutions or individuals in recognition of their efforts for protection of Polish cultural heritage. The winner of the 16th edition was Professor Franciszek Ziejka, Chairman of the Social Committee for the Restoration of Monuments of Kraków. The award was handed over at the Warsaw Royal Castle on 12 February 2015;

- **Recovery of Polish Art** is a program which aspires to recover the cultural heritage lost by Poland during and in the wake of WWII. In 2015, the Foundation continued its cooperation with the Ministry of Culture and National Heritage as part of the project;

- **Roots:** program under which the Foundation reminds the history of the Bank and the person and achievements of its creators - the Kronenberg family. In 2015, the Leopold Kronenberg Foundation at Citi Handlowy actively participated in the initiatives of the European Association for Banking and Financial History. In St. Petersburg archives the original Articles of Association of Bank Handlowy dated 1870 were discovered with the signature of the President of the State Council, the Grand Duke Konstanty, authorizing the establishment of the Bank. More than 31,000 digital copies of materials relating to the history of Bank Handlowy and the Kronenbergs were compiled.

- **Employee Volunteering Program in Citi Handlowy:** Poland's largest employee volunteering program. It aims to encourage community initiatives of the Bank’s current and former employees. In 2015, a record number of 227 volunteer projects for more than 25,000 recipients was completed. Volunteers (including the ones from outside the organization) engaged in social activities 4,012 times. The key initiative was the 10th jubilee edition of the Citi Global Community Day. Every year in this project the Bank's employees and their families and friends try to respond to specific needs in communities close to them. In 2015, Citi volunteers in the framework of the Citi Global Community Day carried out 195 social projects for the benefit of nearly 24,000 recipients. In 2015, key projects, i.e.: Christmas action "Become Santa's Assistant ", team building trips combined with volunteering were continued. In addition, as part of year-long mobilization volunteers were invited to attend meetings of the Volunteer Club, engaging in Senior Volunteering as well as social activities in the framework of regularly sent proposals for individual volunteering;

- **Grant Program** is a competition through which the Leopold Kronenberg Foundation at Citi Handlowy supports the most valuable projects conceived by not-for-profit organizations in the area of education and local development. In 2015, 12 grants were allocated;

- **Responsible Business League ("RBL"):** program targeting the academic community to promote CSR ideas as a business standard. The program is organized by the Responsible Business Forum in co-operation with the Leopold Kronenberg Foundation, Orange, PGNiG and public universities. The subsequent edition of the program started in the academic year 2014/2015. It was attended by 9,000 people. The program is under the honorary patronage of the Ministry of Economy and the Ministry of Science and Higher Education.

2. Cultural patronage and sponsorship

In 2015, Citi Handlowy and the Kronenberg Foundation at Citi Handlowy were the sponsors of many national and international conferences. The Foundation was the strategic partner of the Small and Medium-Sized Enterprises Forum held in Toruń as part of the European Week of Small and Medium-Sized Enterprises. The purpose of the Forum, mainly intended for representatives of small and medium-sized enterprises with a potential for growth in international markets, was to share with its participants as much practical knowledge involved in expanding business internationally as possible.

Citi Handlowy was a partner of the Polish-African Business Forum which took place at the Polish Parliament on May 19, 2015. The main purpose of the Forum was to promote cooperation between Poland and Africa by presenting Africa as a continent enjoying rapid business growth and friendly to Polish business. The meeting was attended by the diplomatic corps of African countries, Polish government officials, Polish businessmen interested in cooperation with African countries and representatives of non-governmental organizations.

In October 2015, the Conference of Rectors of Academic Schools in Poland was held in Wrocław and Citi Handlowy was a partner thereof. A video conference featuring Professor David Gann of the London Imperial College, an expert in innovation management, prepared by Citi Handlowy, was a part of the Plenary Assembly panel of the CRASP.

A debate of Citi Handlowy and Polityka Insight took place at the fifth European Financial Congress in Sopot, Poland. The following topics were discussed at the panel: direction of development of tests of banks' resilience to shocks, alternative measures of banks' resilience, taking account of non-financial indicators in analyses of banks' stability and the question of comparison of shock resilience indicators between banks. It was also in Sopot that the Marketplanet OnePlace 2015 –

Innovation in Procurement meeting was held and Citi Handlowy was a partner. The meeting participants were procurement leaders and their strategic suppliers who discussed the biggest challenges facing business and innovative ways of building shared value.
Citi Handlowy has been involved in the Economic Forum in Krynica which has been an excellent opportunity to meet for politicians and business and share their knowledge for years. The motto of last year's Forum was "How to Build a Strong Europe? Strategies for the Future," and innovation featured prominently in the agenda. Citi representatives presented the bank's experiences in implementing mobile banking, which is a perfect example of innovation. Citi was also present on the "Strong Europe – Strong Partner" expert panel organized by the Foundation of the American Chamber of Commerce in Poland.

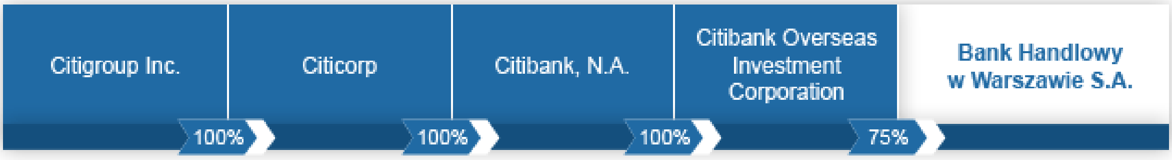
IX. Investor information

1. The Bank's shareholding structure and performance of its shares on the WSE

1.1 Shareholders

The only shareholder of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders' Meeting (GSM) is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds the group's overseas investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2014, neither the number of shares held by COIC nor its participation in the share capital and votes at the GSM of the Bank changed, and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM.

The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:



The remaining shares (32,664,900, equivalent to 25% of the share capital) constitute free float, which means that they remain in free trading and are listed on the WSE.

Among shareholders participating in the share capital of the Bank are Open Pension Funds which, in accordance with public information about the structure of assets as at 31 December 2015, held a total of 9.5% of shares of the Bank, which was a decrease of 4.64 percentage points against 31 December 2014.

Shareholding of Open Pension Funds in the Bank was as follows:

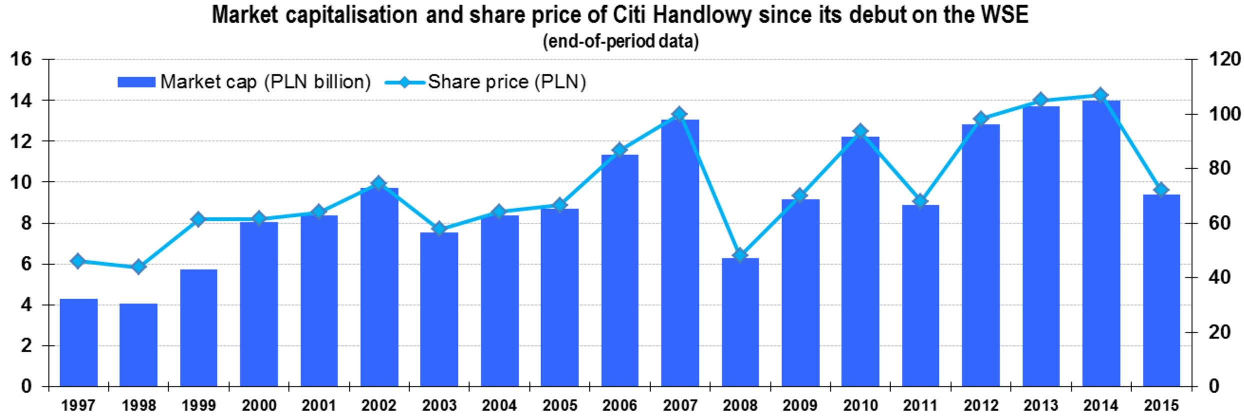
Shareholder	31.12.2015		31.12.2014	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
ING OFE	3,426,448	2.62%	5,540,822	4.24%
Aviva OFE Aviva BZ WBK	2,737,883	2.10%	4,150,289	3.18%
OFE PZU „Złota Jesień"	1,404,793	1.08%	1,873,369	1.43%
MetLife OFE	966,936	0.74%	1,413,224	1.08%
AXA OFE	872,871	0.67%	1,075,125	0.82%
Allianz Polska OFE	729,473	0.56%	1,066,160	0.82%
Aegon OFE	596,354	0.46%	871,601	0.67%
PKO BP Bankowy OFE	453,375	0.35%	765,123	0.59%
Generali OFE	374,504	0.29%	665,483	0.51%
Pekao OFE	266,837	0.23%	340,816	0.26%
OFE Pocztylion	231,393	0.20%	338,192	0.26%
Nordea OFE	300,182	0.18%	323,042	0.25%
Razem	**12,361,049**	**9.48%**	**18,423,246**	**14.11%**

Source: Annual information about the structure of assets of Open Pension Funds; Bank share closing price at the end of the period.

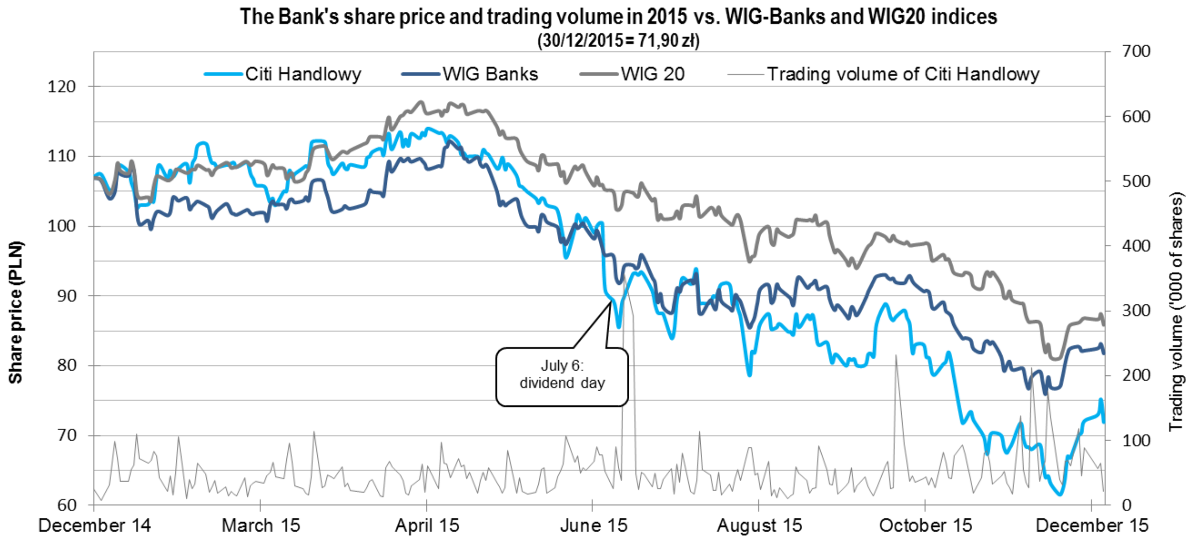
1.2 Performance of the Bank's shares on the WSE

In 2015, the Bank was included in the following indices: WIG, WIG30, mWIG40, WIG Banki and WIGdiv. Additionally, the Bank is present since the first edition in the composition of the RESPECT Index including socially responsible companies listed on the WSE Main Market and MSCI Global Sustainability Index – the index of companies with high standards in the areas of corporate governance, environmental protection and social responsibility.

In 2015, the stock market was characterized by high volatility due to the slowdown of the Chinese economy and uncertainty as to interest rate hikes in the US. The situation on the Warsaw Stock Exchange in 2015 had a significant impact on the listing of the Bank's shares. Like the main indices on the Warsaw Stock Exchange, the shares of the Bank recorded a decline. The Bank's shares closed on the last session in 2015 (i.e. 30 December 2015) at PLN 71.90, i.e. their price dropped by 33% as compared to the level as at 30 December 2014 amounting to PLN 106.95. In the same period, WIG-20 and WIG-Banks indexes recorded declines of respectively 20% and 24%, and the WIG index decreased by 10%.



The capitalization of the Bank at the end of 2015 stood at PLN 9.4 billion (compared to PLN 14.0 billion at the end of 2014). Stock market indices amounted to: price/earnings (P/E) – 15.0 (in 2014: 14.8); price/book value (P/BV) – 1.4 (compared to 1.9 in the previous year).



The price of shares of the Bank in the first 5 months of 2015 years was relatively stable with a mild upward trend. In April, the share price reached its maximum level in 2015, i.e. PLN 114.00. In the next part of the year, the Bank's shares were in a downward trend which stopped in December. On 14 December 2015 the price of the Bank's shares dropped to the lowest level in 2015, i.e. PLN 61.53. Finally, on 30 December 2015, the price equaled PLN 71.90.

The Bank’s average share price in 2015 was PLN 94.04 and the average daily volume of trading in the Bank’s shares was slightly higher than 49,800.

2. Dividend

On 3 March 2016, the Management Board adopted a resolution on the proposed distribution of net profit for 2015 and recommended to allocate for the payment of the dividend 98.6% which is PLN 4.68 per ordinary share.

The final decision on the distribution of net profit for 2015 will be made by the General Meeting of the Bank.

The table below shows a history of dividends since 1997, i.e., since the floatation of the Bank on the WSE.

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	971,422,828	7.43	7.43	99.9%
2015***	611,486,928	4.75	4.68	98.6%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits*
*** On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008*
**** As recommended by the Management Board on March 3, 2016.*

3. Rating

The Bank was fully rated by international rating agencies: Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch").

On 21 May 2015, Moody's agency updated the Bank's rating by raising the long-term deposit rating from "Baa3" to "A3" and the short-term deposit rating from "Prime-3" to "Prime-2". The rating updates followed modifications to the rating methodology and the confirmation of the Baseline Credit Assessment ("BCA") rating of "baa3" as well as an increase of the Adjusted Baseline Credit Assessment ("Adjusted BCA") rating from "baa3" to "baa2".

As at the end of 2015, the Bank had the following ratings awarded by Moody's:

Long-term deposit rating	A3
Rating outlook for long-term deposits	stable
Short-term deposit rating	Prime-2
Baseline Credit Assessment (BCA)	Baa3
Adjusted Baseline Credit Assessment (Adjusted BCA)	Baa2
Long-term Counterparty Risk Assessment	A2
Short-term Counterparty Risk Assessment	Prime-1

On 23 November 2015, Fitch affirmed the long-term rating at "A-" and raised its short-term rating to "F1" from "F2". Other ratings remained unchanged.

As at the end of 2015, the Bank had the following ratings awarded by Fitch:

Long–term Issuer Default Rating (IDR)	A-
Outlook for long-term IDR	stable
Short-term Issuer Default Rating (IDR)	F1
Viability rating (VR)*	bbb+
Support rating	1

** Viability rating represents Fitch's view as to the intrinsic creditworthiness of an issuer excluding any impact of external factors.*

4. Investor relations

Investor relations, which ensure information to the existing and potential investors, capital market analysts and rating agencies, are an integral element of the Bank's information policy, the purpose of which is to cater for information needs of all persons and institutions interested in corporate information. In terms of investor relations, the main tools of the information policy are:

- systematic contacts with investors and analysts in the form of teleconferences and meetings, also at the Bank's premises, attended by members of the Management Board of the Bank;
- support of the Press Office during quarterly press conferences for the media, organized after publication of interim reports;
- publishing current information on the Bank and its projects as well as all current and interim reports on the website. The website also enables contacts with the Investor Relations Office (IRO) which has a broad knowledge of the Bank and the Capital Group;
- enabling media to be present at the General Meeting of the Shareholders of the Bank.

As part of investor relations activities in 2015, the Bank organized four conferences for analysts and investors on the financial performance, important events and business achievements of the Bank.
Furthermore, members of the Management Board and representatives of the Investor Relations Office participated in regular meetings with investors and analysts (at the Bank's premises and at investor conferences).

X. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2015

1. Corporate governance rules applied by Bank Handlowy w Warszawie S.A.

Bank Handlowy w Warszawie S.A. ("Bank", "Company") wants to become the most respected financial institution in Poland with a considerable focus on business and social responsibility. Since 2003, the Bank has complied with the corporate governance rules approved by the Warsaw Stock Exchange as the "Best Practices in Public Companies 2005" and, as of 1 January 2008, the "Best Practices for WSE Listed Companies" ("Best Practices"), available at www.corp-gov.gpw.pl, the official website of Giełda Papierów Wartościowych w Warszawie S.A. dedicated to corporate governance of companies listed on the WSE Main Market and NewConnect.

The key objective of the adoption of the corporate governance rules as a standard of the Bank has been to establish transparent relations among all corporate bodies and entities involved in the Company's operation as well as to ensure that the Company and its enterprise are managed properly, with due diligence and loyally with respect to all shareholders. The willingness to ensure transparency of the operation of Bank Handlowy w Warszawie S.A., including in particular the relations and processes among the Company's statutory bodies, caused the Bank to adopt the best practices as set forth in the Best Practices for WSE Listed Companies.

The Bank continues to undertake initiatives to achieve better transparency of the Bank's organization, division of rights and responsibilities and operation of its governing bodies and their mutual relations. For that purpose:

- The Bank has been publishing its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;
- The Supervisory Board includes independent members;
- The Audit Committee, composed of two independent members, including the independent Chairman of the Committee, has been established within the Bank's Supervisory Board;
- Salaries of the members of the Company's governing bodies are adequate to the size of the Company and reflect their scope of responsibilities;
- All significant internal regulations as well as information and documents relating to the Bank's General Meetings are available at the Bank's registered office and on its website.

2. Corporate governance rules set forth in the Best Practices for WSE Listed Companies which were not applied by the Bank in 2015

In 2015, the Bank did not comply with the following rules and recommendations:

a) rule II.3 (addressed to the Management Board) and III.9 (addressed to the Supervisory Board) with respect to approval of significant transactions/agreements with related entities by the Supervisory Board;

b) rule IV.10 (2) pertaining to real-time bilateral communication where shareholders may take the floor during the General Meeting from a location other than the General Meeting;

c) Recommendation I.12, whereby shareholders should be allowed the opportunity to exercise voting rights at the general meeting, in person or through a proxy, from a location other than the venue of the meeting, using means of electronic communication.

Ad (a) The Bank did not apply rules II.3 and III.9 of the Best Practices for WSE Listed Companies only with respect to agreements with related parties entered into as part of ongoing operations, in particular those related to liquidity management. The Bank shares the view that considering the nature and the number of transactions entered into as part of ongoing operations with related entities, it is not possible from the operational perspective to obtain the Supervisory Board's approval for their conclusion. Other agreements with related entities considered significant according to the criteria indicated in the Articles of Association are submitted to the Supervisory Board for approval.

Ad (b) During the Ordinary General Meeting in 2015 rule IV. 10 (2) of the Best Practices concerning bilateral communication in real time under which shareholders may express themselves in the course of the deliberations of the General Meeting from a place other than the place of the General Meeting was not followed. The Bank considered legal, organizational and organizational & technical risks related to providing shareholders personally absent at the GSM with bilateral real-time communications, using means of electronic communications, which may adversely affect the progress of the GSM.

Ad (c) In the Bank's opinion, the possibility of the Bank exercising voting rights in the course of the electronic General Meeting using electronic means of communication (recommendation I.12 of the Best Practices) raises reservations and generates an increased risk of irregularities in the conduct of the General Meeting. Currently available technologies do not guarantee a secure distance voting which can affect the question of the validity of the resolutions to be taken, and thus provoke significant legal consequences. The Bank took into account the potential technical problems including the identification of the shareholders, the choice of a suitable measure for bilateral communication, the inability to guarantee the hardware requirements on the shareholder's side, unpredictable delay times for different shareholders in different time zones, remote communication problems due to factors beyond control of the Bank, including the ones caused for example by regional problems of individual components of the public Internet network.

3. Information on the application of Corporate Governance Principles for Supervised Institutions

The Polish Financial Supervisory Authority by resolution dated 22 July 2014 issued a document titled Corporate Governance Principles for the Supervised Institutions ("Principles").

The Principles are a set of rules governing internal and external relations of institutions supervised by the PFSA including their relations with shareholders and clients, their organization, the internal supervision function and the key internal functions and systems, as well as statutory bodies and their cooperation.

These principles are meant to improve the level of corporate governance at financial institutions and to increase their transparency which is supposed to contribute to strengthening confidence in the financial market in Poland.

The Management Board of Bank Handlowy w Warszawie S.A. on 9 December 2014 declared the Bank's willingness to comply with the Principles. In turn, the Supervisory Board on 18 December 2014 accepted observance of those of the Principles which are within competences of the Supervisory Board.

With regard to three principles it was decided not to apply them:

a) § 11.2 (related-party transactions) – this principle will not be applied to agreements concerning ongoing operating activity, and in particular to those related to liquidity, due to the nature of such transactions and the number of signed agreements.

b) § 8.4 (electronic general assembly) – the IT solutions which are currently available do not guarantee the security and effectiveness of electronic general assemblies. However, the Management Board does recognize the relevance of this form of shareholders' participation in the Bank's general assemblies and therefore a separate decision in this regard will be taken prior to each general assembly.

c) § 16.1 (Polish as the language of the Management Board meetings) – the Management Board meetings held with the participation of foreigners, and especially foreign members of the Management Board who do not speak Polish, are held in English. At the same time, all motions examined at the Management Board meetings, as well as any and all materials and minutes of the meetings are drafted and archived in Polish.

4. Internal control and risk management systems in the process of drawing up financial statements of the Bank

The financial statements of the Bank are drawn up by the Financial Reporting and Control Department, which is a separate organizational unit in the Financial Division in the Management and Support Sector, reporting directly to the Chief Financial Officer and Vice-President of the Management Board of the Bank.

The process of drawing up the financial statements is covered by the Bank's internal control system aimed at ensuring accuracy and fairness of the data shown in the Bank's financial statements. The internal control system includes identification and control of risks related to the process of drawing up the financial statements, monitoring of the Bank's compliance with legal provisions and internal regulations in this respect, as well as internal audit.

Functional internal control is exercised by every employee and additionally by their direct superiors, peers as well as managers of the Bank's organizational units with respect to the quality and correctness of the processes performed by employees with the objective of ensuring compliance of such activities with the Bank's control procedures and mechanisms. Risk management is performed by means of internal mechanisms of risk identification, assessment, prevention, control, monitoring and reporting, executed and supervised by specialized organizational units. The internal control functions include a separate financial control function performed by a separate unit of the Financial Division. The Bank's financial control applies to the accounting policy and financial reporting. The quarterly Risk and Control Self-Assessment (RCSA) ensures an evaluation of control processes and represents a proactive, effective key risk management process, integrated with the process of drawing up the financial statements. The quarterly RCSA process is the Bank's fundamental tool used for monitoring the operational risk levels and changes in the financial reporting environment, identification of new threats, verification of the effectiveness of control mechanisms, and implementation of corrective action plans. As part of the process for identification, prevention, control, monitoring and reporting of operational risk exposure, the Bank implemented effective risk mitigation mechanisms in the field of security of technology systems. The IT systems used in the process of drawing up the financial statements are covered by the Bank's COB plan.

The functional control system is supervised by the Bank's Management Board supported by the Risk and Capital Management Committee.

The Bank's internal audits are conducted by the Audit Department. The Audit Department is responsible for independent and objective assessment of the adequacy and effectiveness of the internal control system and assessment of the Bank's management system including effectiveness of the management of risks related to the activities of the Bank. The Audit Department performs internal controls, undertakes the assessment of activities executed by organizational units of the Bank, and performs audits in subsidiaries of the Bank as part of the Bank's supervision of risks related to the activity of the subsidiaries in terms of their compliance with internal regulations, applicable legal provisions and regulatory requirements, as well as effective and rational control mechanisms. The Audit Department is a separate organizational unit of the Bank, reporting directly to the President of the Management Board of the Bank.

The Supervisory Board of the Bank exercises supervision over the internal control system and the operations of the Audit Department. The Supervisory Board performs its functions with the support of the Audit Committee, which, as part of the supervisory function and in cooperation with the Bank's Management Board and the statutory auditor, verifies the fairness of the financial statements as well as proper execution of the processes related to their preparation and submits recommendations regarding the approval of the annual and interim financial statements by the Bank's Supervisory Board.

The Head of the Audit Department provides the Management Board and the Audit Committee of the Supervisory Board with audit findings and, on a periodic basis at least once per year, provides the Supervisory Board with collective information on irregularities identified and conclusions drawn in the course of the internal audits performed as well as measures undertaken to eliminate the irregularities. The Head of the Audit Department has the right to participate in meetings of the Management Board and the Supervisory Boards at which issues related to the Bank's internal control are considered.

5. Significant shareholdings

The Bank's shareholder holding a significant block of the Bank's shares is Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., which holds 97,994,700 shares, representing 75% of the Bank's share capital. The number of votes corresponding to COIC's shareholding is 97,994,700, representing 75% of the total number of votes at the Bank's General Meeting.

All shares issued by the Bank are ordinary bearer shares which do not confer any special control privileges with respect to the Bank.

There are restrictions resulting from Article 25 of the Banking Act: an entity which intends to purchase or acquire, directly or indirectly, shares or rights attached to shares of a domestic bank in an amount that ensures reaching or exceeding the thresholds of 10%, 20%, one-third, 50% of the total number of votes at the General Meeting or of the share capital, respectively, is obliged to notify at each time the Polish Financial Supervision Authority of such intention to purchase of acquire. An entity which intends to become, directly or indirectly, a parent company of a domestic bank in a manner other than by purchasing or acquiring shares or rights attached to shares of a domestic bank in an amount that ensures a majority of the total number of votes at the General Meeting is obliged to notify at each time the Polish Financial Supervision Authority of such intention. The Bank's Articles of Association do not provide for any other restrictions as regards the transfer of its shares.

6. Rules governing the appointment and dismissal of Members of the Management Board and their powers

The Management Board consists of five to nine members. Members of the Management Board are: President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company and Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years at the request of the President of the Management Board of the Bank. The appointment of two members of the Bank's Management Board including the President requires the approval of the Polish Financial Supervision Authority.

The term of office of a member of the Management Board expires:

1) on the day of the General Meeting of Shareholders approving the Management Report on the activities of the Bank and financial report for the full past year of the term of office of the Management Board member,
2) upon death of the Management Board member,
3) upon dismissal of the Management Board member,
4) as of the date of resignation submitted to the Chairman of the Supervisory Board in writing.

The Management Board decides, by way of resolutions, on the Company's matters not reserved by the applicable laws and the Articles of Association as a responsibility of another governing body, and in particular:

1) determines the strategy of the Company;
2) establishes and liquidates the Company's committees and determines their competences;
3) decides and submits them to the Supervisory Board for approval the Management Board's bylaws,
4) decides the rules of handling special purpose funds created from net profit and submits them to the Supervisory Board for approval,
5) decides on the date of payment of dividend within the timeline defined by the General Meeting of Shareholders,

6) appoints proxies, general attorneys and general attorneys with the right of substitution;
7) decides in matters defined in the Management Board bylaws,
8) makes decisions in issues brought by the President, Vice President or Member of the Management Board,
9) adopts the Company's draft annual financial plan, accepts investment plans and reports on their implementation;
10) accepts reports on the activities of the Company as well as financial statements;
11) formulates decisions regarding distribution of profit or coverage or losses,
12) approves the HR and credit policy as well as legal rules governing the Company's operation;
13) approves the principles governing the Company's capital management;
14) approves of the employment structure,
15) fixes and submits to the Supervisory Board for approval the fundamental organizational structure of the Bank adapted to the size and profile of risks and appoint and dismiss Heads of Sectors, Heads of Sub-sectors and Heads of Divisions and their competences;
16) develops the plan of control measures undertaken in the Company and accepts reports on audits conducted;
17) resolves other issues subject to submission to the Supervisory Board or the General Meeting pursuant to the Articles of Association;
18) decides on contracting liabilities or managing assets whose total value with respect to one entity exceeds 5% of the Company's equity or grants authorizations to designated parties to take the aforementioned decisions; however, with respect to issues for which the Company's Committees have responsibility, such decisions are made upon consultation with the competent Committee;
19) determines the organizational structure and the scope of responsibilities of the Audit Department, including mechanisms ensuring audit independence.
20) develops, implements, approves and updates written strategies, procedures, plans and analyses, undertakes other measures in respect of the risk management, internal control and internal capital assessment system and reviews of the internal capital assessment and maintenance process;
21) introduces the division of the tasks executed at the Bank which assures independence of risk measurement, monitoring and control functions from the Bank's operating activity which generates risk for the Bank;
22) draws up and submits to the Supervisory Board periodical information showing the types and magnitude of risks in the Bank's activities;
23) decides and submits to the Supervisory Board for approval the Bank's information policy;
24) decides independently on the acquisition or disposal by the Company of an ownership title or right of perpetual use of real estate or share in such rights.

To submit matters for their consideration by the Management Board the following are authorized:

1) President of the Management Board;
2) other members of the Management Board;
3) heads of other organizational units on matters falling within the scope of the operation of such units, with the consent of the supervising member of the Management Board or the President of the Management Board.

With regard to matters concerning the fundamental organizational structure of the Bank and the appointment or dismissal of the Heads of Sectors, Heads of Sub-sectors and the Heads of Divisions and fixing their competences at the initiative of the President of the Management Board or in agreement with the same.

The internal division of competences between the Members of the Management Board is determined by the Management Board of the Bank in the form of a resolution of the Management Board and is subject to approval by the Supervisory Board of the Bank.

Responsibilities of individual members of the Management Board are described in 9.1 below.

7. Amendments to the Articles of Association

The General Meeting of the Bank is authorized to introduce amendments to the Bank's Articles of Association. Any changes to the Articles of Associations must be entered in the court register. Pursuant to Article 34 par. 2. in conjunction with Article 31 par.3 of the Act of 29 August 1997 Banking Law. Amendments to the Articles of Association of the Bank require the authorization of the Polish Financial Supervision Authority, if they refer to:

1) the Bank's business name;
2) the Bank's registered office as well as the object and scope of its business activities;
3) the governing bodies and their powers, in particular those of members of the Management Board appointed upon the consent of the Polish Financial Supervision Authority, as well as the principles governing the decision-making process, the fundamental organizational structure of the Bank, principles for submitting declarations with respect to property rights and obligations, the procedure for issuing internal regulations and the decision-making process regarding contracting liabilities or disposal of assets whose total value with respect to one entity exceeds 5% of the Bank's equity;

4) the principles of functioning of the management system including the internal control system;
5) equity and financial management principles;
6) share privilege or restrictions with respect to the voting right.

8. General Meeting procedure, description of its fundamental powers as well as shareholder rights and their exercise method

8.1 General Meeting procedure

The General Meeting of the Bank operates in accordance with the Regulations of the General Meeting, the Articles of Association as well as applicable laws. The Bank's General Meeting ("General Meeting") follows stable Regulations setting forth detailed principles for conducting meetings and adopting resolutions.

It is the Company's practice that the General Meeting is held at the registered office of the Company in Warsaw. The ordinary General Meeting is convened by the Management Board of the Bank. It should be held within the first six months after the end of each financial year. The Company's practice is to convene the Ordinary General Meeting no later than in the last week of June, before noon. The Supervisory Board has the right to convene an ordinary General Meeting if the Management Board fails to convene such meeting within the timeframe set in the Articles of Association and to convene an extraordinary General Meeting if the Supervisory Board considers it necessary. An extraordinary General Meeting is convened by the Management Board on its own initiative and at the request of a shareholder or shareholders representing at least one-twentieth of the share capital. A request for convening an extraordinary General Meeting should be submitted to the Management Board in writing or in an electronic form. If an extraordinary General Meeting is not convened within two weeks from submission of a request to the Management Board, the registration court may, by way of a decision, authorize the shareholder or shareholders who have made such request to convene the extraordinary General Meeting. The shareholder or shareholders authorized by the registration court should refer to the decision of the registration court mentioned in the previous sentence in the notice convening the extraordinary General Meeting. The chairman of such an extraordinary General Meeting is appointed by the registration court. An extraordinary General Meeting may also be convened by shareholders representing at least one half of the Bank's share capital or at least one half of the total number of votes in the Bank. The chairman of such a General Meeting is appointed by the shareholders. The General Meeting is convened by way of an announcement placed on the Bank's website and in the manner stipulated for the distribution of current filings by public companies, provided that such an announcement is made at least twenty six days before the scheduled date of the General Meeting. Shareholders who have the right to demand that a certain issue be included on the agenda of a General Meeting should, in order to exercise such right, submit a motion to the Bank's Management Board in writing or in an electronic form along with a justification and a draft resolution related to the proposed item on the agenda, no later than twenty one days before the date of the General Meeting. The Management Board will place the issue on the agenda of the next General Meeting immediately, no later than eighteen days before the scheduled date of the General Meeting. A General Meeting may be cancelled only if it has become expressly irrelevant or there are extraordinary obstacles preventing it. A General Meeting is cancelled, or its date is changed, in the same manner as it is convened, except that the twenty six day period is not applied. Cancellation or change of date of a General Meeting must be made in a manner minimizing the adverse effects for the Bank and the shareholders. The General Meeting can resolve not to consider an issue placed on its agenda and to change the order of issues included on the agenda. However, in order to remove an issue from the agenda or resolve not to consider an issue included on the agenda at shareholders' request, prior consent is required of all present shareholders who have made such a request supported by 80% of votes at the General Meeting. Motions concerning such matters should be justified in a detailed way.

A full text of the documentation to be presented at the General Meeting along with the draft resolutions (and, if a given case does not require passing of a resolution, along with comments of the Management Board) is placed on the Bank's website as of the day of convening such General Meeting. Materials to be used at the General Meeting are made available at the Bank's registered office at the time specified in the Bank's announcement convening the General Meeting. Notwithstanding the foregoing, the Bank fulfills all disclosure requirements related to convening of General Meetings imposed by the applicable laws.

The General Meeting is opened by the Chairman of the Supervisory Board and, in his/her absence, by the Vice-Chairman of the Supervisory Board or a member of the Supervisory Board. It is the Company's practice with respect to holding General Meetings that a Chairman of the Meeting is elected immediately after opening the Meeting. The General Meeting does not make any decisions prior to the election of the Chairman.

Through the party in charge of opening the General Meeting, the Bank's Management Board always provides the Chairman of the General Meeting with instructions for performing such a function in a manner ensuring compliance with generally applicable laws, corporate governance rules, the Articles of Association as well as internal regulations of the Bank. Members of the Bank's Management Board and Supervisory Board as well as the statutory auditor of the Bank should participate in the General Meeting if it discusses financial issues.

The General Meeting votes in an open ballot. Secret ballot is applied with respect to elections and motions regarding dismissal of members of the Company's governing bodies or liquidators, holding them liable, as well as in personal matters. In addition, secret ballot must be ordered upon the motion of at least one shareholder present or represented at the General Meeting.

The General Meeting is valid irrespective of the number of shares represented at it, subject to specific circumstances defined by applicable laws. Resolutions are adopted by the General Meeting by an absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association provide otherwise.

The Bank may organize the General Meeting in a manner allowing the shareholders to participate in the General Meeting using electronic communication means, in particular by way of:

1) real-time broadcast of the General Meeting;
2) two-way real-time communication enabling shareholders who use electronic communication means to speak during the General Meeting from a remote location;
3) exercising the voting right in person or through an attorney before or during the General Meeting.

The rules of shareholders' participation in the General Meeting and the procedures followed during the General Meeting, as well as the mode of communication between the shareholders and the Bank through electronic communication means, are set out in the Regulations of the General Meeting. The Regulations of the General Meeting may authorize the Bank to define means of communication between the shareholders and the Bank through electronic communication means other than those set out in the Regulations.

The Management Board will announce other means of communication in the announcement convening the General Meeting. Notwithstanding the foregoing, the Bank may broadcast the General Meeting online, record the Meeting and publish the record of the Meeting on the website of the Bank after the Meeting.

In practice, voting takes place through a computer system for casting and counting votes, which ensures that the number of votes cast corresponds to the number of shares held and eliminates the possibility to identify the votes cast by individual shareholders in the event of secret ballot.

The Chairman of the General Meeting should formulate resolutions in a manner ensuring that each authorized party who objects to the decision constituting the object of the resolution has an opportunity to appeal against it. The Chairman of the General Meeting is obliged to ensure that resolutions are drawn up in a clear and explicit manner. Additionally, the Management Board of the Company provides the Chairman with the potential assistance of the entity rendering legal services to the Company.

Resolutions adopted by the General Meeting are recorded in the form of minutes by a notary public. The minutes should state that the General Meeting has been properly convened and has the capacity to adopt resolutions, as well as list the resolutions adopted, the number of votes for each resolution as well as objections filed. The minutes should be supplemented with an attendance list, including signatures of the participants in the General Meeting. The evidence supporting the fact of convening the General Meeting should be enclosed by the Management Board in the book of minutes.

The Management Board encloses a copy of the minutes in the book of minutes.

General Meetings may be attended by the media.

8.2 Fundamental powers of the General Meeting

The General Meeting should be convened to:

1) examine and approve the Management Board's reports on the activities of the Company, its financial statements for the previous financial year as well as the consolidated financial statements of the Company's capital group;
2) adopt a resolution on profit distribution or loss coverage;
3) acknowledge the fulfilment of duties by the members of the governing bodies of the Company.

In addition to the powers set forth in mandatory provisions of law, the responsibilities of the General Meeting include:

1) disposing of and leasing the enterprise or its organized part and establishing a limited property right on the enterprise or its part;
2) amending the Articles of Association;
3) increasing or reducing the Company's' share capital;
4) determining the date of exercising the pre-emptive right with respect to new issue shares;
5) determining the date of dividend payment for the previous financial year as well as dividend payment deadlines;
6) creating and liquidating special funds from profit;
7) appointing and dismissing members of the Supervisory Board;
8) determining the amount of remuneration paid to members of the Supervisory Board;
9) business combination or liquidation of the Company;
10) appointing and dismissing liquidators;
11) redeeming the Company's shares;
12) using the supplementary and reserve capitals, including the reserve capital created for the purpose of collecting undistributed profit (not allocated to dividend paid in a given financial year), as well as the general risk fund.

The General Meeting decides upon profit distribution by determining the amount of allocations for:

1) supplementary capital created on an annual basis with allocations from profit in the amount of at least 8% of the profit generated in a given financial year until the capital amounts to at least one third of the share capital. The General Meeting has the right to adopt a resolution imposing the obligation to make further allocations;
2) reserve capital;

3) general risk fund;

4) dividend;

5) special purpose funds;

6) other purposes.

In the event of the Company's liquidation, upon the motion of the Supervisory Board, the General Meeting appoints one or more liquidators and determines the liquidation method.

8.3 Shareholders' rights and their exercise methods

The Company's shares are disposable bearer shares. The shareholders have the right to a share of the profit disclosed in the financial statements audited by the statutory auditor, which has been allocated to payment to the shareholders by the General Meeting. The profit is distributed proportionately to the number of shares.

The right to participate in the General Meeting of the Bank as a public company is vested exclusively in persons who are the Bank's shareholders at least sixteen days prior to the date of the General Meeting (Date of Registration of participation in the General Meeting). A shareholder participating in the General Meeting is entitled to vote, file motions and raise objections as well as present a concise statement of reasons for his/her position.

Draft resolutions proposed for adoption by the General Meeting as well as other important materials should be provided to the shareholders together with a statement of reasons and the opinion of the Supervisory Board prior to the General Meeting within a time limit sufficient for the shareholders to read and evaluate the above documents.

A shareholder has the right to participate in the General Meeting and exercise his/her voting right in person or through an attorney.

Each shareholder has the right to stand as a candidate for the Chairman of the General Meeting, as well as propose one candidate for the Chairman of the General Meeting to the minutes.

Under every point of the agenda, the shareholder is entitled to make a statement and a response.

On a shareholder's request, the Management Board is obliged to provide him/her with information on the Company, on condition that such a request is justified for the purpose of evaluating the issue included in the agenda. The Management Board should refuse access to information if such an action:

1) could be detrimental to the Company, its related party or subsidiary, in particular through the disclosure of technical, trade or organizational secrets of the enterprise;

2) could expose a member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board has the right to provide information in writing, not later than within 2 (two) weeks from the date of closing the General Meeting.

The governing bodies of the Company do not limit information but, at the same time, they comply with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, the Act on Trading in Financial Instruments, the Regulation on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof, as well as the provisions of the Code of Commercial Companies.

The General Meeting is valid irrespective of the number of shares represented at it, subject to specific circumstances defined by applicable laws. Resolutions are adopted by the General Meeting by an absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association of the Bank provide otherwise.

Each shareholder has the right to object to the provisions of a resolution adopted by the General Meeting as well as present his/her arguments and statement of reasons.

Each shareholder has the right to propose changes and supplements to draft resolutions included in the agenda of the General Meeting until the closing of the discussion regarding a particular item of the agenda with respect to the draft resolution to which the proposal applies. Proposals and their brief justifications should be presented in writing.

A shareholder may file a motion on a formal issue at the General Meeting. Motions on formal issues concern the procedure and voting.

The shareholders have the right to propose their candidates to the Bank's Supervisory Board in writing to the Chairman of the General Meeting or orally to be included in the minutes; in both cases, the proposals require a brief justification.

The shareholders have the right to access the book of minutes and request the issuance of copies of resolutions certified by the Management Board.

Shareholders who voted against a resolution at the General Meeting and, after its adoption, requested their objection to be recorded in the minutes; shareholders who have not been admitted to participate in the General Meeting for no legitimate reasons; and shareholders absent from the General Meeting shall have the right to file an action regarding cancellation of a resolution adopted by the General Meeting only in the event that the procedure for convening the General Meeting was not executed correctly or a resolution was adopted with respect to an issue not included in the agenda.

The shareholders have the right to file an action against the Company in order to cancel a resolution adopted by the General Meeting which does not comply with an applicable legal act.

The Company's shares may be redeemed upon the consent of a shareholder through their acquisition by the Company (voluntary redemption). Share redemption requires the adoption of a relevant resolution by the General Meeting. The resolution should determine in particular the legal basis for the redemption, the amount of consideration payable to the shareholder of the redeemed shares, or a statement of reasons for share redemption without a consideration, as well as the method of reducing the share capital.

The Bank ensures adequate protection of the minority shareholders' rights, within the limits imposed by its corporate status and the associated primacy of the majority rule principle. In particular, to ensure equal treatment of its shareholders, the Bank has adopted, among others, the following principles:

- General Meetings of Shareholders of the Bank are always held at the head office of Bank in Warsaw,
- representatives of the media are allowed to be present at the General Meetings of Shareholders,
- In accordance with the Bank's practice, all important materials prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to the shareholders no later than 14 days before the date of the General Meeting, at the Bank's registered office and on the Bank's website;
- General Meeting of Shareholders acts according to its bylaws that define in detail the rules of holding meetings and adopting resolutions,
- General Meeting of Shareholders is attended by members of the Supervisory Board and Management Board, who give explanations and information about the Bank to other participants of the Meeting within the scope of their responsibilities,
- members of the General Meeting of Shareholders that object to a resolution have the right to justify their objection. In addition, each participant of the Meeting is allowed a possibility to make a written statement recorded in the minutes of the Meeting.

9. Composition of and changes to the Management Board and the Supervisory Board of the Bank, rules of procedure of the Bank's managing and supervisory bodies

9.1 Management Board

The Management Board consists of five to nine members. Members of the Management Board are: President of the Management Board, Vice-Presidents of the Management Board and Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years.

As at the day of signing this Report on Activities, the composition of the Company's Management Board was as follows:

Member of the Management Board	Professional experience
Sławomir S. Sikora *President of the Management Board*	President of the Management Board is responsible for: • directing the work of the Management Board, determining how to replace absent members of the Management Board; • convening and chairing meetings of the Management Board; • presenting the position of the Management Board to the Bank's governing bodies, state and local authorities as well as the general public; • filing motions to the Supervisory Board regarding the appointment or dismissal of members of the Management Board as well as determination of their remuneration; • issuing internal regulations governing the Bank's operations and has the right to authorize the remaining members of the Management Board or other employees to issue such regulations; • deciding on the use of internal audit results and notifies the audited unit of any decisions made with respect to the audit; • exercising other rights under the regulations adopted by the Supervisory Board; • overseeing the identification and implementation of the Bank strategy; • supervising the internal audit unit; • supervising the risk of non-compliance of the Bank with the laws, regulations and market standards; • overseeing personnel policies; • for shaping the image of the Bank; • ensuring the consistency of the organizational structure of the Bank; • overseeing the implementation of corporate governance; • overseeing legal services; • overseeing the Bank's security area in terms of protection of persons and property;

Member of the Management Board	Professional experience
	ensuring that in subordinated divisions and organizational units operating outside of the divisional structure the principles of operational risk management associated with their activities are in place.
David Mouillé *Vice-President of the Management Board*	Responsible for retail banking, including for quality standard for banking services provided by supervised organizational units, ensures the implementation in the supervised units of the operational risk management rules associated with their activities.
Maciej Kropidłowski *Vice-President of the Management Board*	Responsible for: • operations on the financial markets, including money market, foreign exchange, securities and derivatives transactions; • securitization operations; • activities related to arranging financing for investment plans, mergers and acquisitions in the following areas: – syndicated loans; – bridge facilities; – debt securities; – project finance; – off-balance sheet financing. • custodian and depositary activities; and ensures that in subordinated organizational units the principles of operational risk management associated with their activities are in place.
Barbara Sobala *Vice-President of the Management Board*	Supervises the management of significant risk in the Bank's operations, is responsible for the risk management system comprising: • the Bank's lending policy; • the loan portfolio quality; • credit risk; • market risk; • operational risk; • coordinating activities related to the implementation in the Bank of the regulatory requirements from the area of risk management, including the recommendations of the supervision authorities. responsible for the adjustment of the organizational structure of the Bank to the size and risk profile of the risk incurred by the Bank. She is a member of the Management Board to whom infringements and violations of the applicable laws and procedures and ethical standards effective in the Bank can be anonymously reported.
Witold Zieliński *Vice-President of the Management Board*	Oversees the area of accounting and financial reporting, including financial control, is responsible for the management accounting, bookkeeping, drafting accounting principles, coordinating activities related to the implementation in the Bank of the requirements arising from the provisions of the law, as well as resolutions and recommendations of the regulator in terms of capital adequacy. is also responsible for the current cooperation and supervision over the corporate banking and business banking, including supervision over services for clients from the sector of financial institutions, ensures the implementation in the supervised units of the operational risk management rules related to their activities.
Czesław Piasek *Member of the Management Board*	Responsible for transaction banking including for: • cash management products; • trade finance products; • cash products; • liquidity management products. In addition, he is responsible for the supervision of EU programs, surveillance, within the framework of functional ties, over services for the public sector. He ensures that in subordinated organizational units the principles of operational risk management associated with their activities are in place.

In 2015 the Management Board consisted of: Mr. Brendan Carney – Vice President of the Management Board whose mandate expired on 22 June 2015 and Ms. Iwona Dudzińska – Member of the Management Board who resigned from the function on 31 July 2015.

The Management Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Regulations of the Management Board.

The Regulations of the Management Board of the Bank set forth the scope, rules of procedure of the Management Board as well as the procedure for the adoption of resolutions.

In 2015, there were the following committees within the Management Board of the Bank:

1) Assets and Liabilities Management Committee (ALCO);
2) Capital Investment Committee;
3) Risk and Capital Management Committee;
4) Retail Banking Sector Risk Committee.

Meetings of the Management Board are convened and chaired by the President of the Management Board. The President of the Management Board may establish fixed dates of the meetings.

The Corporate Services Office in the Corporate Communication and Marketing Department ("Corporate Services Office") provides organizational support to the Management Board.

The attendance of members of the Management Board at its meetings is obligatory. Any expected absence of the member of the Management Board at the meeting should be reported to the Corporate Services Office and must be justified. In addition to members of the Management Board, meetings may be attended by:

5) Corporate Services Office Head or a designated person;
6) Head of Compliance Department;
7) Legal Division Head.

The Head of the Audit Department and the Head of the Compliance Monitoring Department attend the meetings of the Management Board if the agenda covers the internal control system, the internal audit function or compliance function. The Head of the Audit Department may participate in meetings of the Management Board at which issues related to the Company's internal control are considered. Upon the motion of members of the Management Board, meetings may be attended by the Company's employees or third parties competent with respect to a particular matter. The chairman of the meeting may decide upon a debate without the participation of parties not being members of the Management Board.

For resolutions adopted by the Management Board to be valid, the presence of at least half of the members at the meeting is required. Resolutions of the Management Board are passed by the absolute majority of votes.

The Management Board adopts resolutions by voting in an open ballot. The chairman of the meeting may order a secret ballot on his/her own initiative or upon a motion of a member of the Management Board. A resolution of the Management Board enters into force as of the date of its adoption, unless a different adoption date is specified therein.

In justified cases, resolutions may be adopted by the Management Board in a circular (written) procedure pursuant to a decision of the President of the Management Board or the member of the Management Board replacing the President. Draft resolutions to be taken in a circular procedure are presented for approval of all members of the Management Board and have binding effect after their signing by an absolute majority of the members of the Management Board, including the President of the Management Board or the member of the Management Board replacing the President. Date of entry into force of the resolution is the date of its signing by the Member of the Management Board putting signature under the resolution already signed by at least a half of the members of the Management Board. If at least one of the members of the Management Board raises objection as to deciding in a circular procedure the draft resolution should be submitted to the next meeting of the Management Board. A resolution may be adopted in a circular procedure provided that all members of the Management Board are notified of its adoption. A resolution adopted in a circular procedure constitutes an appendix to the minutes from the first meeting of the Management Board following its adoption.

With the consent of the President of the Management Board, the members of the Management Board absent at the meeting may participate in the meeting and voting by means of direct communication at a distance in a way that allows simultaneous communication in real time and mutual identification between all members of the Management Board participating in the meeting or voting (e.g. video conferencing, teleconference).

Meetings of the Management Board are recorded. Minutes are taken by the Corporate Services Office. Minutes of the Management Board meetings should include:

1) the agenda;
2) the first and last names of attendees;
3) information on excused absence or reasons for the absence of members of the Management Board from a meeting;
4) texts of resolutions adopted;
5) the number of votes cast for a particular resolution and dissenting opinions;
6) the name of the entity or organizational unit or the first and last name of the person in charge of implementation of the resolution; and
7) resolution implementation deadline.

The minutes are signed by all members of the Management Board attending the meeting, immediately after they have received the document.

The Management Board provides the Supervisory Board with the following financial information:

1) upon preparation, but not later than 30 (thirty) days from each month-end, monthly and periodical (covering the period from the beginning of the year to the end of the preceding month) financial information, compared with the budget adopted in the annual plan and in relation to the previous year;

2) immediately upon preparation, but not later than 120 (one hundred and twenty) days after each financial year-end, annual individual and consolidated financial statements drawn up in accordance with the International Financial Reporting Standards and audited by the Company's statutory auditor;

3) immediately upon preparation but in each case not later than by the end of each year, the draft annual plan for the following financial year; and

4) immediately, other available financial data related to the Company's operations and financial position as well as the operations and the financial position of the Company's subsidiaries, which may be reasonably requested by a member of the Supervisory Board.

9.2 Supervisory Board

The Supervisory Board of the Company is composed of five to twelve members, each of whom is appointed by the General Meeting for a term of three years. In accordance with Article 14.2 of the Articles of Association, the Extraordinary General Meeting of the Bank determined in Resolution No. 6 of 5 December 2006 that the minimum number of members of the Supervisory Board is 8. At least half of the members of the Supervisory Board should be of Polish nationality. The Supervisory Board includes independent members.

As at the day of signing this Report on Activities, the composition of the Company's Supervisory Board was as follows:

Member of the Supervisory Board	Professional experience
Andrzej Olechowski *Chairman of the Supervisory Board*	Mr. Andrzej Olechowski holds a Ph.D. in Economics. Andrzej Olechowski is a member of the Board of Directors of Euronet and of Advisory Committees of Citigroup Europe and Macquarie European Infrastructure Fund. Previously, he was the Minister of Finance and the Minister of Foreign Affairs of the Republic of Poland. He was also a candidate for the office of the President of the Republic of Poland. He is a member of a number of non-governmental organizations, among others, the Chairman of the Polish Group of the Trilateral Commission. Author of numerous publications on international economic and political relations, Dr. Olechowski is a professor in the Academy of Finance and Business Vistula. In the years 1991-1996 and 1998-2000 served as the Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003. Since 23 July 2012 has been the Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Shirish Apte *Deputy Chairman of the Supervisory Board*	Until recently, Mr. Shirish Apte was the Chairman of Citi Banking in the Asia-Pacific region (Co-Chairman, Citi Asia Pacific Banking). In the years 2009-2011, he served as the Head of the Asia-Pacific Region (CEO, Citi Asia Pacific), being responsible for South Asia including such countries as Australia, New Zealand, India and the countries belonging to the Association of South-East Asian Nations (ASEAN). He was a member of Citi Executive Committee and Operating Committee. Mr. Shirish Apte worked at Citi for over 32 years. He was among others CEO of the Region of Central and Eastern Europe, Middle East and Africa (CEEMEA), and earlier as the Head of the Country (Country Manager) was responsible for Citi's operations in Poland, and was Vice-President of Bank Handlowy w Warszawie S.A. Mr. Shirish Apte moved from India to London in 1993 where he assumed the position of Senior Risk Manager in the CEEMEA Region. Then he was appointed as the Head of Corporate Finance and Investment Bank in the CEEMEA Region, including India too. Mr. Shirish Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and has a BA title in Commerce. Mr. Shirish Apte also has an MBA from London Business School. Mr. Shirish Apte has been the Vice-Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 25 June 2003.
Igor Chalupec *Member of the Supervisory Board*	Mr. Igor Chalupec is the Partner and President of the Management Board of ICENTIS Sp. z o.o. Corporate Solutions S. K-A and ICENTIS Capital Sp. z o.o. Graduate from the Faculties of Foreign Trade of the Warsaw School of Economics (former SGPiS) and of Law and Administration of the Warsaw University. Licensed broker of securities. In 1991-1995, he was a founder and then manager of Centralne Biuro Maklerskie Banku Pekao SA, currently CDM Pekao SA. In 1995-2000, a Member and then, until 2003, Vice-President of the Management Board of Pekao SA (UniCredit Group) responsible among others for corporate and investment banking, treasury and custody services as well as asset management. In 2003-2004, Under-Secretary of State in the Ministry of

Member of the Supervisory Board	**Professional experience**
	Finance responsible for European affairs, financial markets and financial information. Vice-Chairperson of the Commission for Insurance and Bank Supervision (2003-2004). Author of the Warsaw City 2010 Agenda, the government's capital market development strategy. From October 2004 to January 2007, President of the Management Board and CEO of Polski Koncern Naftowy ORLEN, the biggest Polish company and, after the acquisition of the Lithuanian refinery Mazeikiu Nafta in 2006, the biggest fuel company in Central Europe. Member of many Supervisory Boards, including the Warsaw Stock Exchange (1995-2003), Unipetrol, a.s. (2005-2007). Currently a member of the Supervisory Boards of PZU Życie SA and Budimex SA. Member of the Program Council of the Economic Forum in Krynica. Winner of many rewards and distinctions, including the Lesław A. Paga Award for setting modern standards in the Polish economy, the Hermes Award for outstanding contribution to the reconstruction of the Polish capital market and the Vector Award made by the Confederation of Polish Employers. Igor Chalupec has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 18 June 2009.
Mirosław Gryszka *Member of the Supervisory Board*	Mr. Mirosław Gryszka is a graduate of the Gdańsk Technical University. Since 1990, he has held managerial positions in Asea Brown Boveri and, in the years 1997-2013 was the President of ABB Sp. z o.o. and Country Manager of ABB in Poland. Since September 2013 has been the Director of the Subregion "Baltic countries, Russia, countries of Central Asia and the Caucasus" in the structures of ABB Group. He has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 30 June 2000
Frank Mannion *Member of the Supervisory Board*	Mr. Frank Mannion is the Citi Chief Financial Officer for Europe, the Middle East and Africa (EMEA). He assumed this position in January 2011 and is in charge of the group of over 1,000 employees in the entire Region. Mr. Mannion began his career in Ireland before moving to join PricewaterhouseCoopers in London. Mr. Mannion joined Citi in the UK in 1989 in the Planning and Analysis team. He has held various Finance roles, including Technology Finance Manager and Head of CMB EMEA Product Control. In 2008, he became Citi Regional Franchise Controller in the Region of Europe, Middle East and Africa (EMEA) where he was responsible for a group of more than 800 employees from different areas. Previously, he was in charge of the Control of Products and Regulatory Reporting (Product Control, Controllers and Regulatory Reporting) as CMB EMEA Regional Controller. Frank Mannion graduated from the National University of Ireland in Galway and has a scientific degree in Commerce. He also holds the title of the Chartered Accountant. He lives in London with his family. He has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 28 June 2010.
Dariusz Mioduski *Member of the Supervisory Board*	Investor and manager with extensive transactional, legal and regulatory experience, particularly in the areas of privatizations, mergers and acquisitions and project finance in power, natural resources and infrastructure sectors. Currently, Dariusz Mioduski is the President of Radwan Investments, his family investment holding company. He is also the majority owner and Chairman of the Supervisory Board of the football club Legia Warszawa. In the years 2007-2013 he served as Chief Executive Officer and President of the Management Board of Kulczyk Investments S.A., the largest private group in Poland, focusing its investments in the sectors of energy, natural resources and infrastructure. In the years 1997-2007 Dariusz Mioduski was a partner in CMS Cameron McKenna managing energy-related and infrastructure practice in Poland. In the years 1991-1997 he spent four years in the New York and Warsaw offices of White & Case LLP and Vinson & Elkins LLP in Houston. Dariusz Mioduski is Vice President of the Polish Business Council, Vice President of the Association of the Harvard Club of Poland and a member of the Board of the Harvard Law School Dean's Advisory. Mr. Mioduski also sits on the Supervisory Boards of several public and private companies, including, inter alia, Serinus Energy Inc. Dariusz Mioduski holds a doctorate from Harvard University Law School (1990) and University of St. Thomas in Houston, Texas (Bachelor of Arts, 1987). He has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 12 September 2011.

Member of the Supervisory Board	Professional experience
Anna Rulkiewicz *Member of the Supervisory Board*	Mrs Anna Rulkiewicz is a graduate of the Faculty of Humanities of the Nicolaus Copernicus University in Toruń. She graduated from parallel studies in the Department of Psychology at the University of Hamburg and was awarded a postgraduate degree in the Polish-French Institute of Insurance at the French Institute. She also followed the cycle of training among others in the area of management, sales, communication, marketing (including 3-year management studies) under the certified program for the insurance industry LIMRA "Marketing Strategies for Executive Advancement" (LIMRA Executive Development Group). She also completed many courses in management, sales, finance, marketing and banking. Since 2002, Ms. Anna Rulkiewicz has worked in LUX-MED Sp. z o.o. where she initially served as a member of the Management Board, Director of Sales and Marketing. Since 2007 she has been the President of LUX MED Group. Since the end of 2011 she has also served the function of the Executive Director of LMG Försäkrings AB whose branch operates in Poland under the brand name LUX MED Ubezpieczenia. She is the President of the Board of the Association of Employers in Private Medicine too. Her professional experience also includes among others management in the years 2001-2002 over the Sales and Marketing Division in Credit Suisse Life & Pensions Towarzystwo Ubezpieczeń na Życie and Powszechne Towarzystwo Emerytalne / Winterthur where she oversaw the work of the departments of internal sales, external sales, group insurance, marketing and communications. In the years 1998-2001 she worked for Zurich Towarzystwo Ubezpieczeń na Życie S.A. and Zurich Powszechne Towarzystwo Emerytalne S.A. Acting as the Director of the Group Insurance and Training, she was responsible among others for the group insurance segment, including for the creation of services, recruitment system and training management. After being entrusted with the position of the Director of the Corporate Client Segment and being appointed a member of the Management Board of Zurich Towarzystwo Ubezpieczeń na Życie S.A. responsible for the segment of clients from the small business and corporate segments. In the years 1995 – 1998, she worked in Commercial Union Towarzystwo Ubezpieczeń na Życie S.A. where on her last position was responsible for the development of sales of group and individual insurance under bancassurance. She has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 June 2013.
Stanisław Sołtysiński *Member of the Supervisory Board*	Stanisław Sołtysiński is a Professor of Legal Sciences. Prof. Sołtysiński deals with scientific activity as the Professor of Legal Sciences associated with the Adam Mickiewicz University in Poznań (where he was also the Dean of the Faculty of Law and Administration). He lectured many times as a visiting professor at the University of Pennsylvania Law School in Philadelphia, as well as at the College of Europe in Bruges, Max Planck Institute in Munich and at the Academy of International Law in the Hague. He is a member of many scientific associations and organizations. Among others, he is a correspondent member of the Polish Academy of Learning and a member of the Board of Directors of UNIDROIT. He is a co-author of the Commercial Companies Code. Prof. Sołtysiński is also in private law practice as a partner in the law firm Sołtysiński, Kawecki i Szlęzak - Legal Advisors. Prof. Sołtysiński was appointed to the Supervisory Board of Bank Handlowy w Warszawie S.A. on 26 March 1997 and was the Chairman of the Supervisory Board from 30 June 2000 to 20 June 2012. He is a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.
Zdenek Turek *Member of the Supervisory Board*	Mr. Zdenek Turek is currently responsible for all of Citi's operations in Western Europe (19 countries), and also serves as the Head of Institutional Banking in the Region of Europe, Middle East and Africa. He works in London. Citi offers a wide range of institutional, investment, retail and transactional banking services as well as securities and capital markets services for the entire Region of Western Europe which is one of the largest Citi markets in the world. Until recently, Mr. Zdenek Turek acted as CEO of Citi in the Region of Central and Eastern Europe and Country Corporate Officer in Russia and worked in Moscow. Citi's operations in this region included 8 countries of Central and Eastern Europe. Citi in Russia is one of the largest and best capitalized banks in the country which has 2,000 institutional clients and more than a million retail clients, served by 4,000 employees in over 50 branches located in 12 cities across the country. Earlier, between 2005 and 2008, Zdenek Turek was Citi Country Officer for Citibank South Africa and headed the entire Africa region with 16 countries.

Member of the Supervisory Board	Professional experience
	From 2002 to 2005, Zdenek Turek was the Citi Country Manager for Hungary, also managing the Central European cluster of 5 countries (Hungary, Czech Republic, Romania, Slovakia and Bulgaria). Mr. Zdenek Turek started working at Citi in 1991 in Prague where he served in many leadership roles in the areas of Banking and Corporate Finance. Then, in 1998, he was promoted to the position of the Citi Country Officer in Romania. Prior to joining Citi, Zdenek Turek was a member of the Foreign Exchange Department of the Czechoslovak Central Bank focusing mainly on Export/Import of Services Sectors (1986 - 1990). Then, he teamed up with A.I.C., an Austrian consulting company, as Deputy Head of Representative Office in Prague. He dealt mainly with a business consultancy in the field of restructuring and recovery of debts of enterprises. Zdenek Turek was born in Kolin, Czech Republic. He graduated from the Faculty of Finance and Banking at the University of Economics in Prague in 1986. He also studied at the University of Wharton (under Advanced Management Program, 1997), and received the title of Executive MBA in INSEAD business school (2010). Zdenek Turek is a member of the American Chamber of Commerce Board in Russia. He has been a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.
Stephen R. Volk *Member of the Supervisory Board*	Mr. Stephen R. Volk holds the function of Vice Chairman of Citigroup Inc. and is responsible for Citigroup Senior Management matters as well as Investment Banking. He is also a member of the Citigroup Executive Committee. Mr. Volk has been with Citigroup since September 2004. Earlier Mr. Volk held the function of Chairman of Credit Suisse First Boston where he worked together with the CEO on the company strategic management and key matters related to clients. His professional experience with Credit Suisse First Boston began in August 2001 and before that he worked for Shearman & Sterling, a New York-based law firm, where he had been Senior Partner since 1991. During his career in Shearman & Sterling, Mr. Volk acted as legal counsel to a number of corporations including Citicorp. The firm provided advisory services for Citicorp within a wide range of fields including restructuring of the Citigroup debt portfolio in Latin America. Among some important transactions carried out with substantial participation of Mr. Volk were the following: mergers of Glaxo and SmithKlein, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman & Sterling in 1960 after graduating from Dartmouth College and Harvard Law School and became a Partner of this company in 1968. Mr. Volk is a Director of Continental Grain Company and a former Director of Consolidated Edison, Inc. as well as Trizec Hahn Properties. He is also a member of the Council on Foreign Relations, the Dean's Advisory Board of Harvard Law School and a fellow of the American Bar Foundation. He has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.
Anil Wadhwani *Member of the Supervisory Board*	Mr. Anil Wadhwani became the Head of Retail Banking and Corporate Banking in the Region of Europe, Middle East and Africa (EMEA) in October 2013 Previously, from February 2012, was the Head of Cards and Loans for Retail Clients in the Asia-Pacific region responsible for the whole range of payment products under Citi brand and under partner brands (co-branded) offered in this region by Citi. In August 2012, additionally he took over responsibility for Retail Banking in South-East Asia which includes such countries as: Indonesia, Malaysia, Philippines, Singapore, NRI/IPB units, Thailand, Viet Nam and Guam. Mr Wadhwani became the Head of Retail Markets in Singapore in September 2008, and in May 2010 he also took over, in the entire region, the responsibility for Citibanking segment. His retail activities changed the competitive environment in Singapore where he oversaw the distribution and development, increasing the recognizability of Citi and confirming its leading position on the market. As CEO of Citibank Singapore Limited worked with the local Supervisory Council in order to ensure proper management of the bank in a changing regulatory environment. Within the framework of his regional responsibilities Mr Wadhwani collaborated with different countries, creating Citibanking segment by identifying the model of client relations, creating a convincing offer and increasing the profitability of this segment. Mr. Anil Wadhwani has been with Citi since 1992. Since then, he held various

Member of the Supervisory Board	Professional experience
	prominent positions in both the Credit Card and Retail Banking areas, and also was in charge of the Retail Banking in India. His accomplishments include the development of the initiative of Citibank Suvidha, operating in different geographical areas of India and considered to be a unique model of acquiring customers and delivering products to them, and at the same time, being a model for many Citi initiatives such as "Bank-At-Work" around the world. Mr Wadhwani received a BA degree in Commerce and a MA degree in Management from the Mumbai University. He has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 24 June 2014.

In 2015, the Supervisory Board included also Mr. Omar Ahmed who resigned from the function as of 1 October 2015.

The Supervisory Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Regulations of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Apart from the rights and responsibilities stipulated in the applicable laws, the powers of the Supervisory Board include:

1) appointment and dismissal of the President of the Management Board of the Company in a secret ballot;
2) appointment and dismissal of Vice-Presidents and other members of the Company's Management Board in a secret ballot upon the motion of the President of the Management Board;
3) determination of the terms and conditions of employment contracts or other legal relationships between members of the Management Board and the Company;
4) granting consent to opening or closing of foreign branches;
5) adoption of the Regulations of the Supervisory Board as well as the approval of:
   a) Regulations of the Management Board of the Company;
   b) regulations for management of special funds created from the net profit.
6) granting prior consent to undertaking measures with respect to management of the Company's fixed assets whose value exceeds 1/10 of the Company's share capital;
7) appointing the entity authorized to audit financial statements to audit or review the financial statements;
8) granting consent to hiring and dismissal of the Head of the Audit Department and the Head of the Compliance Department, upon the motion of the Management Board,
9) any benefits provided by the Company and its related parties to members of the Management Board as well as granting consent to entering into a material agreement by the Company or its subsidiary with the Company's related party, member of the Supervisory Board or the Management Board as well as their related parties;
10) supervision over implementation and monitoring of the Bank's management system, including in particular supervision over compliance risk management, as well as evaluation, at least once a year, of the adequacy and effectiveness of this system;
11) approval of the Bank's operational strategy and the principles of prudent and stable management of the Bank;
12) approval of the fundamental organizational structure of the Bank, adjusted to the size and profile of incurred risk and determined by the Bank's Management Board;
13) acceptance of the general level of the Bank's risk;
14) approval of the principles of the Bank's compliance risk policy;
15) approval of the Bank's internal procedures concerning internal capital assessment, capital management and capital planning processes;
16) approval of the Bank's information policy;
17) approval of the internal control procedure;
18) approval of the general rules of the policy governing the variable components of remuneration for persons in managerial positions and performing periodic reviews of those rules;
19) approval of the policy governing the variable components of remuneration for persons in managerial positions in the Bank;
20) approval of the list of managerial positions in the Bank which have a significant impact on the risk profile in the Bank.

In accordance with Banking Law the Supervisory Board approves the internal division of competences in the Management Board and the remuneration policy for the Company.

Additionally, the Supervisory Board is responsible for suspending individual or all members of the Management Board for material reasons as well as delegating members of the Supervisory Board to temporarily (for a period not exceeding three months) act in the capacity of members of the Management Board who have been dismissed, submitted a statement of resignation or are incapable of performing their duties for any other reasons.

Members of the Supervisory Board perform their duties in person. The Supervisory Board performs its duties collectively; each member of the Supervisory Board has the right to be provided by the Management Board with information required for due performance of their duties. Meetings of the Supervisory Board are held at least once a quarter. Such meetings are convened by Chairman of the Supervisory Board and, in his/her absence, by one of Vice-Chairmen of the Supervisory Board on their own initiative, upon the motion of a member of the Supervisory Board or upon the motion of the Management Board of the Company. The Chairman of the Supervisory Board may determine fixed dates of the Supervisory Board's meetings. Notices convening such meetings, including the agenda and materials to be debated upon, are distributed by the Secretary of the Supervisory Board to members of the Supervisory Board at least 7 (seven) days prior to the date of the meeting.

The Supervisory Board meets on the date of the General Meeting which approves the Management Board's report on the activities of the Company as well as the financial statements for the last full financial year of performing the function of member of the Management Board in which the terms of office expire, for the purpose of electing new members of the Management Board of the Company.

On an annual basis, the Supervisory Board adopts a resolution regarding the report on the activities prepared by the Supervisory Board, presenting the Supervisory Board's evaluation of the Company's position, evaluation of the Supervisory Board's activities, evaluation of the internal control system and the significant risk management system, as well as the results of the evaluation of the financial statements of the Company, including proposals of the Management Board as to profit distribution. The above document is submitted by the Supervisory Board to the General Meeting for approval.

Members of the Supervisory Board may participate in the adoption of resolutions by casting their vote in writing or through another member of the Supervisory Board. The Supervisory Board may adopt resolutions in a circular procedure or via telecommunication means.

Meetings of the Supervisory Board are chaired by the Chairman of the Supervisory Board and, in his/her absence, by one of the Vice-Chairmen of the Supervisory Board. If both the Chairman and Vice-Chairman are absent, the meeting is chaired by a member of the Supervisory Board elected by the remaining members.

For resolutions adopted by the Supervisory Board to be valid, the presence of at least half of the members at the meeting is required. Resolutions of the Supervisory Board are passed by the absolute majority of votes. Without the consent of the majority of independent members of the Supervisory Board, no resolutions should be adopted with respect to:

1) any benefits provided by the Company or its related parties to members of the Management Board;
2) granting consent to entering into a material agreement by the Company or its subsidiary and the Company's related party, member of the Supervisory Board or the Management Board or their related parties;
3) appointment of the statutory auditor responsible for auditing the financial statements of the Company.

Each member of the Supervisory Board is obliged to immediately inform the remaining members of a conflict of interests and refrain from taking part in the discussion as well as voting on a resolution with respect to which a conflict has arisen.

The Supervisory Board adopts resolutions in an open ballot, except for the appointment and dismissal of the President of the Management Board of the Company in a secret ballot as well as the appointment and dismissal of Vice-Presidents and other members of the Company's Management Board in a secret ballot upon the motion of the President of the Management Board. The chairman of the meeting may decide upon a secret ballot with respect to other issues on his/her own initiative or upon a motion of a member of the Supervisory Board.

A resolution of the Supervisory Board enters into force as of the date of its adoption, unless a later effective date is specified therein.

Minutes are taken from the meetings of the Supervisory Board and should include the agenda, the first and last names of the present members of the Supervisory Board, the number of members absent from the meeting with the reasons for their absence, the number of votes for individual resolutions, dissenting opinions, as well as the full text of resolutions adopted. The list of members of the Supervisory Board attending the meeting as well as other participants constitutes an appendix to the minutes. The minutes are signed by all members of the Supervisory Board attending the meeting. The minutes from the meetings of the Supervisory Board for the whole term of its office are collected in a separate file stored by the Company.

Members of the Management Board of the Company attend meetings of the Supervisory Board, except for meetings concerning directly the Management Board. Upon the motion of the Chairman of the Supervisory Board or upon the motion of the Management Board of the Company, meetings may be attended by the Company's employees or third parties competent with regard to a particular matter. The Head of the Audit Department may participate in meetings of the Supervisory Board at which issues related to the Company's internal control are considered. In specially justified circumstances, the Chairman of the Supervisory Board may decide to convene a meeting without the participation of parties other than members of the Supervisory Board, irrespective of any preceding regulations providing otherwise.

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

1) Audit Committee; and
2) Remuneration Committee;
3) Risk and Capital Committee.

The Supervisory Board has the right to adopt a resolution on the appointment of committees other than those specified above and composed exclusively of members of the Supervisory Board. The relevant resolution of the Supervisory Board sets forth the scope of responsibilities of such a committee.

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's corporate bodies as well as streamlining of their functioning. The Committee is composed of: Shirish Apte as the Chairman and Stanisław Sołtysiński as the Deputy Chairman, and Igor Chalupec, Mirosław Gryszka, Marc Luet (until 24 June 2014), Dariusz Mioduski, Andrzej Olechowski, Anna Rulkiewicz, Zdenek Turek and Stephen R. Volk and Anil Wadhwani as Committee members.

Audit Committee

The Audit Committee is composed of:

1) Mirosław Gryszka – Chairman of the Committee;
2) Frank Mannion – Deputy Chairman of the Committee;
3) Shirish Apte - Member of the Committee;
4) Igor Chalupec - Member of the Committee;
5) Anna Rulkiewicz - Member of the Committee.

The Audit Committee is a standing committee of the Company's Supervisory Board.

The roles and responsibilities of the Audit Committee include monitoring of financial reporting, monitoring of the effectiveness of the internal control and internal audit systems, monitoring of risk management, monitoring of audit performance and monitoring of the independence of the auditor.

Members of the Committee perform their roles pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee discussed at such meetings.

The Audit Committee should consist of at least two independent members, one of whom performs the function of the Committee Chairman. At least one member of the Committee should meet the independence requirements referred to in Article 56.3.1, 56.3.3 and 56.3.5 of the Act on Auditors, Their Self-government and the Entities Authorized to Audit Financial Statements, and on Public Supervision, as well as hold qualifications within the field of accounting or financial auditing.

Audit Committee meetings are convened by the Committee Chairman on his/her own initiative or upon the motion of a Committee member. Should the Committee Chairman be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Vice-Chairman. Meetings are also convened upon the motion of a Committee member or the Chairman of the Supervisory Board.

A notice convening the meeting, including the agenda and materials subject to discussion, is distributed to members of the Audit Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). Meetings of the Audit Committee are held at least four times per year on dates determined by the Chairman upon consultation with the Vice-Chairman of the Committee.

At least once every year, the Audit Committee meets:

1) with the Head of the Audit Department, without the participation of the management;
2) with the statutory auditor of the Company, without the participation of the management;
3) members of the Audit Committee, exclusively.

At its discretion, the Audit Committee may also meet with individual executives of the Company.

The agenda of the Audit Committee includes standing items as well as issues considered upon motion. The list of standing items considered at the Committee's meetings is determined in a resolution adopted by the Committee. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

Based on materials received, the Secretary of the Audit Committee prepares a draft agenda, including a list of invitees, and submits it to the Committee Chairman and Vice-Chairman for approval. The draft agenda approved by the Committee Chairman and Vice-Chairman is distributed with materials to Committee members.

All members of the Audit Committee are obliged to participate in its meetings. A Committee member unable to take part in the meeting should inform the Secretary of the Committee accordingly seven days prior to the specified meeting date. The Committee has the right to consult advisors and invite the Company's employees or third parties to its meetings to discuss or examine the issues considered by the Committee. Parties invited by the Committee Chairman or Vice-Chairman may participate in the meeting or its relevant part.

Meetings of the Committee are chaired by the Chairman of the Audit Committee. In the Chairman's absence, meetings are chaired by the Deputy Chairman. Upon consultation with the Vice-Chairman of the Committee, the Chairman may remove an issue from the agenda, in particular for the purpose of supplementing a motion or obtaining an opinion.

Resolutions of the Audit Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting.

Upon consultation with the Deputy Chairman of the Committee, the Chairman may decide on considering a matter in a circular procedure.

Remuneration Committee

The Remuneration Committee is composed of:

1) Andrzej Olechowski – Chairman of the Committee;

2) Shirish Apte – Member of the Committee;

3) Stanisław Sołtysiński –- Member of the Committee.

Until 1 October 2015 the Committee included, as its Deputy Chairman, Omar Ahmed too.

The Remuneration Committee is a standing committee of the Company's Supervisory Board.

The Remuneration Committee is an advisory body of the Supervisory Board and the Committee members perform their functions pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee discussed at such meetings.

The powers and responsibilities of the Remuneration Committee include:

1) evaluating the remuneration paid to members of the Company's Management Board against market criteria;

2) evaluating the remuneration paid to members of the Company's Management Board with respect to the scope of duties of members of the Company's Management Board and their performance;

3) providing the Supervisory Board with recommendations as to the amount of remuneration paid to individual members of the Company's Management Board each time prior to its determination or modification;

4) performing a general assessment of the correctness of the remuneration policy adopted by the Company with respect to its executives not being members of the Management Board;

5) issuing opinions on the policy governing the variable components of remuneration for persons in managerial positions in the Bank;

6) issuing opinions on and monitoring of the variable components of remuneration for persons in managerial positions in the Bank related to risk management and compliance of the Bank with legal provisions and internal regulations.

The Remuneration Committee consists of at least 3 (three) members of the Supervisory Board, including 1 (one) independent member of the Supervisory Board. Committee members, including its Chairman and Vice-Chairman, are elected by the Supervisory Board in an open ballot.

Remuneration Committee meetings are convened by the Committee Chairman on his/her own initiative or by the Vice-Chairman if the Committee Chairman is unable to convene a meeting for any reason whatsoever. Meetings are also convened upon the motion of a Committee member or the Chairman of the Supervisory Board. Meetings of the Remuneration Committee are held at least 2 (two) times a year on dates determined by the Chairman of the Committee. The agenda of the Remuneration Committee includes standing items as well as issues considered upon motion.

Based on materials received, the Secretary of the Remuneration Committee prepares a draft agenda, including a list of invitees, and submits it to the Committee Chairman for approval.

All members of the Remuneration Committee are obliged to participate in its meetings. A Committee member unable to take part in the meeting should inform the Secretary of the Committee accordingly 7 (seven) days prior to the specified meeting date. Parties invited by the Committee Chairman, and in particular parties presenting individual issues, participate in the Committee meeting or its relevant part.

Resolutions of the Remuneration Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting.

The Chairman of the Remuneration Committee may decide on considering a matter by circular procedure. A member of the Remuneration Committee voting against may request that a dissenting opinion be included in the minutes.

Minutes are taken from the meetings of the Remuneration Committee. They are signed by the Chairman and the Secretary. The minutes from the Committee meeting are acknowledged by the Committee members at the first subsequent meeting of the Committee.

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Zdenek Turek – Chairman of the Committee;

2) Igor Chalupec – Deputy Chairman of the Committee;

3) Frank Mannion – Member of the Committee;

4) Dariusz Mioduski – Member of the Committee;

5) Andrzej Olechowski – Member of the Committee;

6) Stephen R. Volk – Member of the Committee;

7) Anil Wadhwani – Member of the Committee.

Members of the Committee perform their roles specified in these Regulations pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee discussed at such meetings. The Committee's Regulations are published on the Bank's website and made available at its registered office.

The Committee is responsible for supervision over the implementation of the risk management system by the Bank's Management Board, assessment of the adequacy and effectiveness of the risk management system, as well as supervision over the internal capital assessment and capital management process.

The Committee consists of at least four members of the Supervisory Board one of whom performs the function of the Committee's Chairman. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.

Committee meetings are convened by the Committee Chairman on his/her own initiative or upon the motion of a Committee member. Should the Committee Chairman be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Vice-Chairman. Meetings are also convened upon the motion of a Committee member or the Chairman of the Supervisory Board.

Meetings of the Committee are held at least on a semi-annual basis on dates determined by the Committee Chairman upon consultation with the Vice-Chairman of the Committee.

A notice convening the meeting, including the agenda and materials subject to discussion, is distributed to members of the Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). The notice should include the agenda as well as materials related to the matters discussed at the meeting. The agenda of the Committee includes standing items as well as issues considered upon motion. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

All members of the Committee are obliged to participate in its meetings.

The Committee has the right to consult advisors and invite the Bank's employees or third parties to its meetings to discuss or examine the issues considered by the Committee.

Parties invited by the Committee Chairman or Vice-Chairman may participate in the meeting or its relevant part.

Meetings of the Committee are chaired by the Chairman of the Audit Committee. In the Chairman's absence, meetings are chaired by the Deputy Chairman.

Resolutions of the Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting. Upon consultation with the Deputy Chairman of the Committee, the Committee Chairman may decide on considering a matter in a circular procedure.

Minutes are taken from the Committee's meetings.

10. Good practices in Dom Maklerski Banku Handlowego S.A. and in Handlowy-Leasing Spółka z o.o. - companies belonging to the Bank's capital group

Dom Maklerski Banku Handlowego S.A (DMBH) and Handlowy-Leasing Spółka z o.o. are not public companies, therefore they are not required to follow the Code of Best Practice for WSE Listed Companies or make any statements in that respect; however, due to their important role in the Capital Group, the following circumstances should be considered.

DMBH is a member of the Brokerage House Chamber and as such it must follow the Code of Best Practice of Brokerage Houses developed by the Brokerage House Chamber. The Code does not regulate the question of corporate governance, but most of all concerns rules of business secret protection, relation with customers, conduct of the brokerage house employees, including relations with other brokerage houses. DMBH is an entity that is subject to the Act on trading in financial instruments and, therefore, apart from the Commercial Companies Code, it follows certain elements of the corporate governance resulting from the Act and its secondary regulations; among other things, pursuant to Article 103 of the aforementioned law the Management Board should consist of at least 2 members with university degree, at least 3-year's working experience in financial institutions and good recommendations. The Polish Financial Supervision Authority is informed by DMBH on changes in the Management Board. In addition, DMBH must send mandatory reports to the Polish Financial Supervision Authority (including reports on any changes in the composition of the Management Board, or reports on resolutions of the General Meeting of Shareholders). The aforementioned Act also regulates the issue of buying shares of the brokerage house. It stipulates that the head office of the brokerage house must be in Poland. From 1 January 2015 DMBH is subject to the Corporate Governance Principles for Supervised Institutions ("CGP") adopted with the resolution of PFSA of 22 July 2014. CGP are a set of rules governing internal and external relations of institutions supervised by the PFSA including their relations with shareholders and clients, their organization, the internal supervision function and the key internal functions and systems, as well as statutory bodies and their cooperation. CGP are meant to improve the level of corporate governance at financial institutions and to increase their transparency which is supposed to strengthen confidence in the financial market in Poland. On 23 December 2014 the Management Board of DMBH declared DMBH willingness to comply with CGP, and the Supervisory Board accepted the observance of CGP which are within the competences of the Supervisory Board.

Three CGP rules are not applied by DMBH:

a) § 11 par. 2 (related party transactions) – this principle will not be applied in respect of agreement relating to current operating activities;

b) § 22 par. 1 and 2 (independence of the members of the supervisory body) – these principles are not applied taking into account the current composition of the Supervisory Board.

Handlowy-Leasing Spółka z o.o. (HL) operates as a leasing company. The leasing industry associated in the Polish Leasing Association did not develop best practices applicable to leasing companies.

HL operates in accordance with the Commercial Companies Code. HL has a Supervisory Board despite lack of requirement to have one, in order to ensure continuous supervision of the company operations.

XI. Other information about the authorities of Bank Handlowy w Warszawie S.A. and corporate governance rules

1. Information regarding the remuneration policy

Remuneration policy for the key Persons at Bank Handlowy w Warszawie S.A. (Bank) and at Dom Maklerski Banku Handlowego S.A. (DMBH) – subsidiary of the Bank - were adopted by the resolution of the Supervisory Board of the Bank dated 3 December 2015 and the resolution of DMBH Supervisory Board dated 28 December 2015 (hereinafter referred to as the Remuneration Policy). Remuneration Policy sets out the principles for remunerating of the Management Board Members and other persons holding key functions, including persons who have a material impact on the risk profile of the Bank and DMBH. The Policy implements requirements of the provisions of law, Rules of Corporate Governance for Supervised Institutions adopted by the Polish Financial Supervision Authority.

Principles for variable remuneration in the Bank and DMBH are described in details in the Variable remuneration components policy for persons holding managerial positions in Bank Handlowy w Warszawie S.A which was adopted by the Management Board and approved by the Supervisory Board on 26 September 2012 along with further modifications and the Variable remuneration components policy for persons holding managerial positions in DMBH” which was adopted by the Management Board and approved by Supervisory Board on 29 March 2012 along with further modifications (hereinafter referred to as “the Variable Remuneration Policy”).

Variable remuneration for Bank’s Management Board Members is granted by the Supervisory Board and for other employees covered by the Variable remuneration components policy for persons holding managerial positions in Bank Handlowy w Warszawie S.A by the Management Board. It should be noted that Supervisory Board Remuneration Committee was established in the Bank. It provides recommendations and opinions on the levels and conditions of variable remuneration of employees covered by the Policy. Remuneration Committee gives opinions and monitors the variable remuneration of staff under the Variable Remuneration Policy connected with risk management, compliance and internal audit.

Additionally, each time, in case of the change of the Policy the Remuneration Committee gives its opinion on the changes, including the amounts and components of remuneration, taking into account a cautious and stable risk, capital and liquidity management, and paying special attention to long-term interests of the Bank, the interest of the Bank’s shareholders and investors.

The philosophy of awarding the persons under the Variable Remuneration Policy, adopted by the Group, implies the wage differentiation of particular employees based on the financial and non-financial criteria, such as attitude to take risk and assurance of compliance to reflect their current and future contribution and to supplement mechanisms of efficient risk control by limiting the motivation for taking unreasonable risk impacting the Group and its activities and by rewarding the proper balance between risk and rate of return. According to this philosophy, the payment of variable remuneration to staff under the Variable Remuneration Policy depends on both the short-term and long-term evaluation of the individual performance and the financial results of the Bank or DMBH or specific organizational unit, whereby the persons responsible for control functions are not assessed for the financial results. The assessment of the Bank’s results or results of DMBH is based on the data from three financial years, which takes into account the business cycle of the Bank and risk of its economic activities. In case of staff employed less for than 3 years when evaluating the Bank’s results and results of DMBH the data includes the span of time from the establishing working relationship. The variable remuneration for 2015, granted January 18, 2016, was divided into non-deferred and deferred portions. The deferred portion was divided into short-term part which vests after 6-month period and long-term one consisting of three tranches, paid in years 2017, 2018 and 2019.

Vesting of particular tranches requires to be approved each time by the Supervisory Board in relation to remuneration of the Management Board and the Management Board in the relation to remuneration of other employees.

At least 50% of the variable remuneration should be awarded in the form of non-cash instruments whose value highly depends on the financial results of the Bank or DMBH accordingly. This condition is fulfilled by the phantom shares accepted by the Group, whose value will fluctuate depending on the market value of the Bank’s shares. The remaining part of the variable remuneration is a cash award, whereby the interests for the period from awarding to paying out the given part of remuneration will be accrued to the deferred bonus tranche.

During the deferral period, employees who are rewarded in phantom shares are entitled to dividend equivalent payments in respect of any dividends that are declared and paid to ordinary holders of BHW stock, in accordance with the Variable Remuneration Policy.

Regardless of changes of the deferred variable remuneration’s value associated with the fluctuation of the Bank’s share price or accrued interest, the amount of paid deferred portion of bonus may be lowered or completely reduced if the Supervisory Board or accordingly the Management Board decides that:

- the Authorized Persons have received the variable remuneration based on significantly incorrect financial statements of the Bank or DMBH accordingly; or
- the Authorized Persons have been knowingly taking part in disseminating the significantly incorrect information on the financial statements of the Bank or DMBH accordingly; or
- the Authorized Persons have significantly violated any risk limits, established or corrected by the senior management staff or risk management staff; or
- the Authorized Persons have flagrantly breached their employee duties; or
- there has been a significant decrease of the financial performance of the Bank or DMBH accordingly or significant mistake in risk management.

The awarding of the right to each tranche of deferred bonus will depend on the Bank's results or DMBH results accordingly in the calendar year directly preceding the date of awarding of the right to given tranche ("Year Concerning the Results").

2. Salaries and awards, including bonuses from profit, paid to persons managing and supervising the Bank

The total amount of salaries, awards and short-term benefits paid to the current and former members of the Bank's Management Board in 2015:

PLN'000	Salaries, awards and short-term benefits	
	Base salaries and awards	Other benefits
Sławomir S. Sikora	2,013	434
Maciej Kropidłowski	1,926	162
David Mouillé (1)	528	754
Barbara Sobala	934	94
Witold Zieliński	1,111	128
Czesław Piasek	1,199	126
Former members of the Management Board:		
Brendan Carney (2)	1,399	133
Iwona Dudzińska (3)	754	94
Misbah Ur-Rahman-Shah (4)	-	14
	9,864	**1,939**

(1) In employment since 1 July 2015

(2) In employment to 22 June 2015

(3) In employment to 31 July 2015

(4) In employment to 18 March 2014

The total amount of salaries, awards and short-term benefits paid to the current and former members of the Bank's Management Board in 2014:

PLN'000	Salaries, awards and short-term benefits	
	Base salaries and awards	Other benefits
Sławomir S. Sikora	1,990	310
Brendan Carney	1,973	249
Maciej Kropidłowski (1)	1,094	6
Barbara Sobala	898	76
Witold Zieliński	1,090	109
Iwona Dudzińska	952	112
Czesław Piasek (2)	626	61
Former members of the Management Board:		
Misbah Ur-Rahman-Shah (3)	2,183	180
Robert Daniel Massey JR (4)	-	136
	10,806	**1,239**

(1) In employment since 19 March 2014

(2) In employment since 20 May 2014

(3) In employment to 18 March 2014

(4) In employment to 19 June 2013

"Base salaries and awards" include gross base salary well as awards paid in 2015 and 2014.

"Other benefits" include the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of company car, insurance policy premiums, holiday leave equivalent and any supplementary benefits consistent with the employment contracts of foreign employees.

"Equity awards granted in 2015" include the value of Citigroup shares and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

PLN'000	Capital assets granted	
	granted for year 2015	granted for years 2009-2014
Sławomir S. Sikora	651	3,329
Maciej Kropidłowski	559	632
Barbara Sobala	142	131
Witold Zieliński	232	337
Czesław Piasek	198	221
Former members of the Management Board:		
Brendan Carney (1)	511	511
Iwona Dudzińska (2)	210	260
Misbah Ur-Rahman-Shah (3)	-	4,057
Robert Daniel Massey JR (4)	-	379
Sonia Wędrychowicz-Horbatowska (5)	-	219
	2,503	**10,076**

(1) In employment to 22 June 2015
(2) In employment to 31 July 2015
(3) In employment to 18 March 2014
(4) In employment to 19 June 2013
(5) In employment to 13 May 2012

"Equity awards granted in 2014" include the value of Citigroup shares and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

PLN'000	Capital assets granted	
	granted for year 2014	granted for years 2009-2013
Sławomir S. Sikora	654	2,274
Brendan Carney	407	183
Barbara Sobala	148	62
Witold Zieliński	233	311
Iwona Dudzińska	57	607
Czesław Piasek (1)	209	56
Former members of the Management Board:		
Misbah Ur-Rahman-Shah (2)	1,426	2,782
Robert Daniel Massey JR (3)	150	350
Sonia Wędrychowicz-Horbatowska (4)	-	367
	3,284	**6,992**

(1) In employment since 20 May 2014
(2) In employment to 18 March 2014
(3) In employment to 19 June 2013
(4) In employment to 13 May 2012

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Supervisory Board in 2015 and 2014:

PLN'000	2015	2014
Andrzej Olechowski	402	338
Igor Chalupec	276	242
Mirosław Gryszka	246	202
Dariusz Mioduski	216	146
Anna Rulkiewicz	216	164
Stanisław Sołtysiński	216	189
Shirish Apte	254	-
	1,826	**1,281**

The remuneration paid and due in 2015 to persons managing subsidiaries amounted to PLN 4,899,000 (in 2014: PLN 5,812,000).

Persons supervising subsidiaries did not collect in 2015 and 2014 any remuneration for their services.

3. Total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2015 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Sławomir S. Sikora	-	-	22,485	877
Maciej Kropidłowski	-	-	-	-
David Mouillé	-	-	-	-
Barbara Sobala	-	-	-	-
Witold Zieliński	-	-	600	23
Czesław Piasek	-	-	901	35
Supervisory Board				
Andrzej Olechowski	2,200	8,800		
Shirish Apte	-	-	170,509	6,652
Frank Mannion	-	-	31,809	1,241
Zdenek Turek	-	-	35,397	1,381
Anil Wadhwani			21,545	840
Stephen R. Volk			144,190	5,625

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2014 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Sławomir S. Sikora	-	-	20,388	715
Brendan Carney	-	-	9,674	339
Maciej Kropidłowski	-	-	1,471	52
Barbara Sobala	-	-	206	7
Witold Zieliński	-	-	1,170	41
Iwona Dudzińska	600	2,400	-	-
Czesław Piasek	-	-	1,454	51
Supervisory Board				
Andrzej Olechowski	1,200	4,800	-	-
Shirish Apte	-	-	150,704	5,285
Adnan Omar Ahmed	-	-	10,121	355
Frank Mannion	-	-	26,271	921
Zdenek Turek	-	-	22,254	780
Anil Wadhwani	-	-	17,088	599
Stephen R. Volk	-	-	182,777	6,410

As at 31 December 2015 and 31 December 2015, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

4. Agreements between the Bank and members of the Management Board that provide for compensation in case of their resignation or dismissal without reason or as a result of the Bank's takeover

In terms of employment relationship, there is only one employment agreement, out of employment agreements between the Bank and a Management Board Members, which provides for cash compensation following its termination.

Each of the Management Board Members signed a separate non-competition agreement with the Bank. A relevant paragraph in each of these agreements specifies that the Management Board Member must refrain from conducting business activities competitive to the Bank in the period of 12 months (6 months in case of one of the Management Board Member) following termination of the employment agreement with the Bank and that the Bank will pay relevant compensation to the Management Board Member.

5. Management policy

The management policy of the Bank did not change in 2015. The policy is described in the Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

XII. Agreements concluded with the registered audit company

On 20 March 2015 the Supervisory Board of the Bank appointed the auditor: PricewaterhouseCoopers Sp. z o.o. having its registered office in Warsaw at 14, Al. Armii Ludowej St., registered audit company No. 144, to conduct an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for 2015. PricewaterhouseCoopers Sp. z o.o. was selected in compliance with the applicable laws and auditing standards.

An audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for years 2013 and 2014 was made by PricewaterhouseCoopers Sp. z o.o.

The auditor's net fees under the agreements (paid or payable) for the years 2015 and 2014 are presented in the table below:

For the year *PLN'000*	**2015**	**2014**
Bank (the parent company) audit fees (1)	369	369
Bank (the parent company) review fees (2)	153	153
Subsidiary companies audit fees (3)	230	230
Other assurance fees (4)	158	161
	910	**913**

(1) The audit fees include fees paid or payable for the audit of the annual stand-alone financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2015 signed on 10 June 2015).

(2) The review fees include fees paid or payable for the review of the semi-annual stand-alone financial statements of the Bank and the semi-annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2015 signed on 10 June 2015).

(3) The audit fees include fees paid or payable for the audit of the financial statements of the Bank's subsidiaries.

(4) The fees for other assurance services include all other fees paid to the auditor. These fees include assurance services related to the audit and review of the financial statements not mentioned in points (1), (2) and (3) above.

XIII. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board composed of: Mr. Sławomir S. Sikora, President of the Management Board; Mr. Maciej Kropidłowski, Vice-President of the Management Board; Mr. David Mouillé, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Mr. Witold Zieliński, Vice-President of the Management Board; Ms. Katarzyna Majewska, Member of the Management Board and Mr. Czesław Pasek, Member of the Management Board the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2015 were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of the assets and the financial position as well as the financial profit or loss of the Bank. The Annual Report on the Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2015 contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main risks) of the Bank in 2015.

Selection of the auditor authorized to audit the financial statements

The entity authorized to audit financial statements PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością has audited the Annual Stand-Alone Financial Statements of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2015 and was selected in compliance with legal regulations. PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością and the registered auditors auditing the financial statements met the conditions necessary for issuing an impartial and independent auditor's opinion on the audited financial statements consistently with the applicable legal regulations and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws No. from 2014 item 133) is included in the Annual Stand-Alone Financial Statements of the Bank.

Signatures of Management Board Members

Date	Name	Position/function	Signature
07.03.2016	Sławomir S. Sikora	President of the Management Board	....
07.03.2016	Maciej Kropidłowski	Vice-President of the Management Board	....
07.03.2016	David Mouillé	Vice-President of the Management Board	....
07.03.2016	Barbara Sobala	Vice-President of the Management Board	....
07.03.2016	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	....
07.03.2016	Katarzyna Majewska	Member of the Management Board	....
07.03.2016	Czesław Piasek	Member of the Management Board	....