citi handlowy

Contents

Independent registered auditor's opinion

Translation note: This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT REGISTERED AUDITOR'S OPINION

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

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group (hereinafter called "the Group"), having Bank Handlowy w Warszawie S.A., Senatorska 16 Street, Warsaw, as its parent company (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2013, showing total assets and total equity and liabilities of PLN 45,398,389 thousand, the consolidated income statement for the year from 1 January to 31 December 2013, showing a net profit of PLN 972,708 thousand, the consolidated statement of comprehensive income for the year from 1 January to 31 December 2013, showing total comprehensive income of PLN 672,368 thousand, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Parent Company's Management Board is responsible for preparing the consolidated financial statements and Group Directors' Report in accordance with the applicable regulations, and for the correctness of the accounting records. Members of the Management Board and Members of the Supervisory Board of the Parent Company are obliged to ensure that the consolidated financial statements and the Group Director's Report comply with the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended).

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion on whether the consolidated financial statements comply, in all material respects, with the applicable accounting policies and whether they present, in all material respects, a true and clear view of the Group's financial position and results.

We conducted our audit in accordance with:

a. the provisions of Chapter 7 of the Accounting Act;

b. national standards of auditing issued by the National Council of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included assessing the Group's accounting policies and significant estimates made during the preparation of the consolidated financial statements, as well as evaluating the overall presentation thereof. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements, in all material respects:

a. a. give a fair and clear view of the Group's financial position as at 31 December 2013 and of the results of its operations for the year from 1 January to 31 December 2013, in accordance with the International Financial Reporting Standards as adopted by the European Union;

b. comply in terms of form and content with the applicable laws;

c. have been prepared on the basis of properly maintained consolidation documentation.

The information contained in the Group Directors' Report for the year from 1 January to 31 December 2013 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws of 2014, item 133, with further amendments) and is consistent with the information presented in the audited consolidated financial statements.

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

Adam Celiński
Group Registered Auditor,
Key Registered Auditor
No. 90033

Warsaw, 13 March 2014

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013.

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

Translation note: This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Contents:

I. General information about the Group

a. Bank Handlowy w Warszawie Spółka Akcyjna ("the Parent Company") with its seat in Warsaw, Senatorska 16 Street, is the parent company of Bank Handlowy wWarszawie S.A. Group ("the Group").

b. The Parent Company was was formed on the basis of a Notarial Deed drawn up on 13 April 1870. The Memorandum of Association of the Bank was drawn up as a Notarial Deed at the Notary Public's Office of Andrzej Przybyła in Warsaw on 31 March 1998 and registered with Rep. A No. 2189/98. On 22 February 2001, the Parent Company was entered in the Register of Businesses maintained by the District Court in Warsaw, XIX Business Department of the National Court Register, with the reference number KRS 0000001538.

c. The Parent Company was assigned a tax identification number (NIP) 526-03-00-291 for the purpose of making tax settlements and a REGON number 000013037 for statistical purposes.

d. As at 31 December 2013 the Parent Company's share capital amounted to PLN 522,638 thousand and consisted of 130,659,600 ordinary shares, with a nominal value of PLN 4.00 each.

e. As at 31 December 2013, the Parent Company's shareholders were:

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

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

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

g. As at 31 December 2013, Bank Handlowy w Warszawie S.A. Group comprised the following entities:

Name	Nature of equity relationship (indirect and direct interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance sheet date
Bank Handlowy w Warszawie S.A.	Parent Company	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2013
Handlowy-Leasing Sp. z o.o.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2013
Dom Maklerski Banku Handlowego S.A.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2013
PPH Spomasz Sp. z o.o. w likwidacji	Subsidiary (100.00%)	Full	Not audited	-	31 December 2013
Handlowy Investments S.A.	Subsidiary (100.00%)	Full	Grant Thornton Lux Audit S.A.	audit in progress	28 February 2014*
Handlowy-Inwestycje Sp. z o.o.	Subsidiary (100.00%)	Equity	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2013

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

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

- **Sławomir S. Sikora**
  President of the Management Board
- **Brendan Carney**
  Vice President of the Management Board
- **Misbah Ur-Rahman-Shah**
  Vice President of the Management Board
- **Witold Zieliński**
  Vice President of the Management Board
- **Barbara Sobala**
  Vice President of the Management Board from 15 October 2013
- **Robert Massey JR**
  Vice President of the Management Board to 20 June 2013
- **Iwona Dudzińska**
  Member of the Management Board

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

II. Information about the audit

a. The audit of the consolidated financial statements as at and for the year from 1 January to 31 December 2013 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Adam Celiński (no. 90033).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 6/V/2013 of the Supervisory Board of Bank Handlowy w Warszawie S.A. dated 19 March 2013 in accordance with paragraph 18, clause 1, point 7 of the Parent Company's Memorandum of Association.

c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws No. 77, item 649, as amended).

d. The audit was conducted in accordance with an agreement dated 17 May 2013, in the following periods:

- interim audit from 1 November to 31 December 2013;
- final audit from 2 January to 13 March 2014.

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

Consolidated statement of financial position as at 31 December 2013 (selected lines)

	31.12.2013 PLN '000	31.12.2012 PLN '000	Change		Structure	
			PLN '000	(%)	31.12.2013 (%)	31.12.2012 (%)
ASSETS						
Cash and balances with Central Bank	778,464	1,357,308	(578,844)	(42.6)	1.7	3.1
Amounts due from banks	3,539,927	1,461,901	2,078,026	142.1	7.8	3.4
Financial assets held-for-trading	5,751,829	6,838,483	(1,086,654)	(15.9)	12.7	15.7
Debt securities available-for-sale	17,616,041	15,003,003	2,613,038	17.4	38.9	34.5
Equity investments valued at equity method	7,814	15,110	(7,296)	(48.3)	-	-
Other equity investments available-for-sale	15,280	19,921	(4,641)	(23.3)	-	-
Amounts due from customers	15,231,327	16,221,412	(990,085)	(6.1)	33.6	37.4
Tangible fixed assets	384,581	409,916	(25,335)	(6.2)	0.8	0.9
Intangible assets	1,417,363	1,379,931	37,432	2.7	3.1	3.2
Receivables due to current income tax	80,854	2,702	78,152	>100	0.2	-
Asset due to deferred income tax	203,132	218,786	(15,654)	(7.2)	0.4	0.5
Other assets	359,039	567,736	(208,697)	(36.8)	0.8	1.3
Non-current assets held-for-sale	12,738	12,554	184	1.5	-	-
TOTAL ASSETS	45,398,389	43,508,763	1,889,626	4.3	100.0	100.0
LIABILITIES						
Amounts due to banks	6,378,436	2,356,429	4,022,007	170.7	14.0	5.4
Financial liabilities held-for-trading	4,196,896	5,846,404	(1,649,508)	(28.2)	9.2	13.4
Hedging derivatives	24,710	-	24,710	-	0.1	-
Amounts due to customers	26,568,765	26,852,165	(283,400)	(1.1)	58.6	61.8
Provisions	89,284	28,656	60,628	211.6	0.2	0.1
Liabilities due to current income tax	84	55,343	(55,259)	(99.8)	-	0.1
Other liabilities	832,950	978,351	(145,401)	(14.9)	1.8	2.2
TOTAL LIABILITIES	38,091,125	36,117,348	1,973,777	5.5	83.9	83.0
EQUITY	7,307,264	7,391,415	(84,151)	(1.1)	16.1	17.0
TOTAL LIABILITIES AND EQUITY	45,398,389	43,508,763	1,889,626	4.3	100.0	100.0

Consolidated income statement (selected lines) for the financial year from 1 January to 31 December 2013

	2013 PLN '000	2012 PLN '000	Change		Structure	
			PLN '000	(%)	2013 (%)	2012 (%)
Interest and similar income	1,646,332	2,076,259	(429,927)	(20.7)	52.9	60.3
Interest expense and similar charges	(404,180)	(587,978)	183,798	(31.3)	21.4	26.7
Net interest income	**1,242,152**	**1,488,281**	**(246,129)**	**(16.5)**		
Fee and commission income	762,772	707,240	55,532	7.9	24.5	20.6
Fee and commission expense	(120,470)	(108,382)	(12,088)	11.2	6.4	4.9
Net fee and commission income	**642,302**	**598,858**	**43,444**	**7.3**		
Dividend income	4,416	6,493	(2,077)	(32.0)	0.2	0.2
Net income on trading financial instruments and revaluation	349,000	371,993	(22,993)	(6.2)	11.2	10.8
Net gain on debt investment securities	305,339	279,451	25,888	9.3	9.8	8.1
Net gain on capital investment instruments	1,844	-	1,844	-	0.1	-
Net gain on hedge accounting	2,050	-	2,050	-	0.1	-
Net other operating income	(242)	(18,430)	18,188	(98.7)	-	0.9
General administrative expenses	(1,302,008)	(1,364,951)	62,943	(4.6)	68.8	62.0
Depreciation expense	(62,635)	(64,683)	2,048	(3.2)	3.3	2.9
Profit/loss on sale of other assets	1,050	84	966	1,150.0	-	-
Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities	36,204	(58,101)	94,305	(162.3)	1.2	2.6
Operating profit	**1,219,472**	**1,238,995**	**(19,523)**	**(1.6)**		
Share in net profits (losses) of entities valued with equity method	(1,326)	540	(1,866)	(345.6)	0.1	-
Profit before tax	**1,218,146**	**1,239,535**	**(21 389)**	**(1.7)**		
Income tax expense	(245,438)	(269,403)	23,965	(8.9)		
Net profit	**972,708**	**970,132**	**2,576**	**0.3**		
Total income	3,109,007	3,442,060	(333,053)	(9.7)	100.0	100.0
Total expense	**(1,890,861)**	**(2,202,525)**	**311,664**	**(14.2)**	**100.0**	**100.0**
Profit before tax	**1,218,146**	**1,239,535**	**(21,389)**	**(1.7)**		

Consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2013

	2013 PLN '000	2012 PLN '000	Change	
			PLN '000	(%)
Net profit	**972,708**	**970,132**	**2,576**	**0.3**
Other comprehensive income that may be reclassified to income statement:				
Net valuation of financial assets available-for-sale	(300,754)	340,085	(640,839)	(188.4)
Foreign exchange differences	414	(2,386)	2,800	(117.4)
Other comprehensive income after tax	**(300,340)**	**337,699**	**(638,039)**	**(188.9)**
Total comprehensive income for the period	672,368	1,307,831	(635,463)	(48.6)

Selected ratios characterizing the Group's financial position and results

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

	2013	2012
Profitability ratios		
Return on equity (net profit / average net assets) (1)	13.2%	14.0%
Return on equity (net profit / average net assets excluding the net profit for the period) (1)	15.3%	16.0%
Return on assets (net profit / average assets) (1)	2.2%	2.3%
Interest margin (interest income / average working assets) - (interest expense / average interest-bearing liabilities) (1) (3)	2.9%	3.5%
Profitability ratio on interest-bearing assets (interest income / average interestbearing assets) (1) (3)	4.0%	5.2%
C/I ratio (general administrative expenses and depreciation expense / profit/loss on banking activities) (2)	53.6%	52.4%
Cost of borrowings (interest expense / average interest-bearing liabilities) (1)	1.1%	1.7%
	31.12.2013	31.12.2012
Asset quality ratios		
Interest-bearing assets to total assets (3)	93.4%	92.9%
Impaired loans and advances to customers to gross loans and advances to customers	7.6%	8.1%
Provision coverage of not impaired loans and advances	0.6%	0.7%
Provision coverage of impaired loans and advances	73.0%	71.9%
Other ratios		
Capital adequacy ratio	17.5%	18.1%
Group's own funds (PLN'000)	4,908,707	5,010,491
Total regulatory capital requirement (PLN'000)	2,246,769	2,220,164

1) The average balances of balance sheet items were calculated on the basis of the balances of the individual items as at the beginning and the end of the current financial year and the previous financial year.
2) The profit on banking activities defined as the operating profit less general administrative expenses, depreciation expense and net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities.
3) Interest-bearing assets defined as balances with the central bank (excluding cash), amounts due from banks and from customers and investment securities and derivative instruments.

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

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

Our audit did not cover detailed comparative data constituting the basis for calculating the ratios for the previous years.

The consolidated financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 0.7% in the audited year (2.4% in 2012).

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

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

- At the end of the financial year, the Group's total assets amounted to PLN 45,398,389 thousand. During the year total assets increased by PLN 1,889,626 thousand, i.e. by 4.3%.
- The assets were primarily financed by customer deposits. As at 31 December 2013 the amounts due to customers amounted to PLN 26,568,765 thousand and represented 58.6% of total equity and liabilities (a slight decrease compared to the previous year by PLN 283,400 thousand, i.e. by 1.1%). A decrease of amounts due to customers was mainly driven by decrease of other liabilities related to securities sold under repurchase agreements by PLN 2,709,803 thousand. At the same time, deposits from non-financial sector entities increased by PLN 1,989,916 thousand.
- As at the balance sheet date, amounts due to banks amounted to PLN 6,378,436 thousand, which represented an increase by PLN 4,022,007 thousand, i.e. by 170.7% compared to the previous year. This increase was mainly due to an increase of term deposits (by PLN 2,817,781 thousand, i.e. by 523.0%) and amounts receivable as a result of selling securities under repurchase agreements (by PLN 1,230,139 thousand, i.e. by 222.3%).
- Total equity as at 31 December 2013 amounted to PLN 7,307,264 thousand. A decrease of total equity by PLN 84,151 thousand, i.e. by 1.1% compared to the previous year was mainly due to:
  - payment of dividend from profit for 2012 in the amount of PLN 756,519 thousand;
  - decrease of revaluation reserve related mainly to a difference from valuation of financial assets available-for-sale (net) by PLN 300,754 thousand;
  - net profit generated by the Group in the amount of PLN 972,708 thousand in the audited financial year.
- The higher level of financing influenced mainly an increase of debt securities available-for-sale and amounts due from banks (an increase by PLN 2,613,038 thousand, i.e. by 17.4% and by PLN 2,078,026 thousand, i.e. by 142.1% respectively compared to the balance as at the end of 2012).
- As at 31 December 2013, debt securities available for sale amounted to PLN 17,616,041 thousand and represented 38.9% of total assets. An increase of this balance was due to an increase of the Treasury bonds portfolio, as well as of portfolio of bills issued by National Bank of Poland, which as at the end of the audited year increased by PLN 2,031,847 thousand and PLN 1,751,468 thousand respectively. At the same time, the portfolio of bonds issued by other banks decreased by PLN 1,170,277 thousand.

- As at 31 December 2013, financial assets held-for-trading amounted to PLN 5,751,829 thousand and comprised mainly derivative instruments in the amount of PLN 3,531,126 thousand and Treasury bonds in the amount of PLN 2,101,536 thousand. A decrease in financial assets held-for-trading by PLN 1,086,654 thousand, i.e. by 15.9% compared to the previous year was mainly due to a decrease of the derivative instruments valuation (a decrease by PLN 775,302 thousand, i.e. by 18.0%), mainly the Interest Rate Swaps valuation (a decrease by PLN 591,965 thousand, i.e. 16.9%).
- As at the end of the audited year, amounts due from banks amounted to PLN 3,539,927 thousand and increased mainly due to an increase of amounts payable as a result of purchasing securities with repurchase agreement (an increase by PLN 1,076,594 thousand) and an increase in the balance of deposits (an increase by PLN 529,021 thousand).
- As at 31 December 2013, the net balance of amounts due from customers amounted to PLN 15,231,327 thousand, which was a decrease by PLN 990,085 thousand, i.e. by 6.1% compared to the previous year. At the end of 2013, the gross loan portfolio amounted to amounted to PLN 16,215,360 thousand and comprised mainly of loans and advances due from the non-financial sector entities in the gross amount of PLN 12,921,969 thousand, purchased receivables in the amount of PLN 1,416,242 thousand, unlisted debt securities in the amount of PLN 718,003 thousand and loans and advances due from the financial sector entities in the gross amount of PLN 487,673 thousand. A decrease of amounts due from customers was mainly due to a decrease of the balance of loans and advances due from the non-financial sector entities by the gross amount of PLN 640,280 thousand, as well as a decrease of the balance of amounts due from the financial sector in the amount of PLN 217,791 thousand.
- The balance of impairment allowances decreased by PLN 146,894 thousand, i.e. by 13.0% and as at 31 December 2013 amounted to PLN 984,033 thousand. This decrease largely resulted from a decrease in the impairment allowances of amounts due from individual customers (a decrease of PLN 124,986 thousand, i.e. by 18.9%), mainly as a result of an improvement of the quality of a loan potrfolio. As at 31 December 2013, the share of impaired loans and advances in the total balance of loans and advances decreased by 0.5 pp. and amounted to 7.6%. The coverage ratio of impairment allowances for impaired loans and advances amounted to 73.0% and increased by 1.1 pp. compared to the end of 2012.
- The profit before tax for the audited year amounted to PLN 1,218,146 thousand and was lower than the profit before tax for 2012 by PLN 21,389 thousand, i.e. by 1.7%. The profit before tax comprised mainly of: net interest income of PLN 1,242,152 thousand, net fee and commission income of PLN 642,302 thousand, net income on trading financial instruments and revaluation of PLN 349,000 thousand and net gain on debt investment securities of PLN 305,339 thousand, reduced by general administrative expenses of PLN 1,302,008 thousand.
- Net interest income amounted to PLN 1,242,152 thousand and decreased by PLN 246,129 thousand, i.e. by 16.5% compared to the previous year. A decrease of the net interest income was due to a decrease of interest income by PLN 429,927 thousand. At the same time, interest expense decreased by PLN 183,798 thousand compared to the previous year. A decrease of interest income was mainly due to a lower interest income from amounts due from customers and debt securities available-for-sale by PLN 217,289 thousand and PLN 175,308 thousand respectively. A decrease of interest income and expense was mainly due to a significant decrease of the interest rate level in 2013.
- Net fee and commission income amounted to PLN 642,302 thousand in the audited year and was higher by PLN 43,444 thousand, i.e. by 7.3% compared to the previous year. This was due to an increase of fee and commission income by PLN 55,532 thousand. At the same time, fee and commission expense increased by PLN 12,088 thousand.
- Net gain on debt investment securities amounted to PLN 305,339 thousand in 2013, which means an increase by PLN 25,888 thousand, i.e. by 9.3% compared to 2012. An improvement of net gain on debt investment securities resulted mainly from advantageous conditions on domestic debt market.
- General administrative expenses amounted to PLN 1,302,008 thousand in the audited year (including administrative expenses which amounted to PLN 612,383 thousand) and decreased by PLN 62,943 thousand, i.e. by 4.6% compared to the previous year. A decrease of general administrative expenses was mainly due to a decrease of the remuneration costs (a decrease by PLN 32,848 thousand, i.e. by 6.2%) and the advertising and marketing costs (a decrease by PLN 26,054 thousand, i.e. by 52.8%). General administrative expenses incude the costs of restructuring of the retail branch network, which resulted in creating by the Group a restructuring provisions of PLN 64,913 thousand in 2013.
- Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities was positive and amounted to PLN 36,204 thousand (in 2012 it was negative and amounted to PLN 58,101 thousand). This change comprised mainly of change in result from net impairment allowances of amounts due from customers in the amount of PLN 75,430 thousand and reversal of impairment write-offs related to recoveries on sale of debt from retail portfolio in the amount of PLN 33,994 thousand.
- As a result, in the audited year the Group generated a net profit of PLN 972,708 thousand, which was higher by PLN 2,576 thousand, i.e. by 0.3% compared to the previous year.
- At the end of the audited year, the capital adequacy ratio amounted to 17.5% (at the end of 2012: 18.1%).

IV. The independent registered auditor's statements

a. The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.

b. The scope of the audit was not limited.

c. The Group has up-to-date documentation of its accounting policies, approved by the Parent Company's Management Board. The Parent Company's accounting policies were tailored to the Group's needs and ensured the recognition of all events having a material effect on the assessment of its financial position and results, taking into consideration the prudence principle.

d. The consolidation of equity items was carried out properly in all material respects.

e. The closing balances as at the end of the previous year were correctly brought forward as the opening balances of the current financial year in all material respects.

f. The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS as adopted by the European Union.

g. The elimination of unrealized gains/losses of consolidated entities included in the book value of assets and in respect of dividend payments was carried out, in all material respects, in accordance with IFRS as adopted by the European Union.

h. The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects, in accordance with IFRS as adopted by the European Union.

i. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.

j. The consolidated financial statements of the Group as at and for the year ended 31 December 2012 were approved by Resolution No. 8/2013 passed by the General Shareholders' Meeting of the Parent Company on 20 June 2013 and filed with the National Court Register in Warsaw on 25 June 2013.

k. The consolidated financial statements for the previous year were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. The registered auditor issued an unqualified opinion.

l. We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which indentified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.

m. The total capital requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 2,246,769 thousand as at the balance sheet date. The capital adequacy ratio as at 31 December 2013 amounted to 17.5%. As at the balance sheet date, the Group complied with the prudence principle in all material respects.

n. The notes to the consolidated financial statements present all the significant information in accordance with IFRS as adopted by the European Union.

o. The information in the Group Directors' Report for the year from 1 January to 31 December 2013 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a Member State (Journal of Laws of 2014, item 133) and is consistent with that presented in the consolidated financial statements.

V. Final information and comments

This report has been prepared in connection with our audit of the consolidated financial statements of Bank Handlowy w Warszawie S.A. Group having Bank Handlowy w Warszawie S.A., Senatorska 16 Street, Warsaw, as its Parent Company. The consolidated financial statements were signed by the Parent Company's Management Board on 13 March 2014.

This report should be read together with the Independent Registered Auditor's unqualified Opinion to the General Shareholders' Meeting and the Supervisory Board of Bank Handlowy w Warszawie S.A. dated 13 March 2014, concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

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

Adam Celiński
Group Registered Auditor
Key Registered Auditor
No. 90033

Warsaw, 13 March 2014

Selected financial data

Selected financial data

SELECTED FINANCIAL DATA	2013 PLN'000	2012 PLN'000	2013 EUR'000**	2012 EUR'000**
Interest income	1,646,332	2,076,259	390,960	497,474
Fee and commission income	762,772	707,240	181,138	169,456
Profit (Loss) before tax	1,218,146	1,239,535	289,277	296,994
Net profit (loss)	972,708	970,132	230,992	232,445
Total comprehensive income	672,368	1,307,831	159,669	313,358
Increase/decrease of net cash	(424,160)	500,140	(100,727)	119,834
Total assets	45,398,389	43,508,763	10,946,757	10,642,523
Amounts due to banks	6,378,436	2,356,429	1,538,010	576,398
Amounts due to customers	26,568,765	26,852,165	6,406,434	6,568,212
Shareholders' equity	7,307,264	7,391,415	1,761,975	1,807,988
Share capital	522,638	522,638	126,022	127,841
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	55.93	56.57	13.49	13.84
Capital adequacy ratio (in %)	17.5	18.1	17.5	18.1
Earnings per share (PLN/EUR)	7.44	7.42	1.77	1.78
Diluted net earnings per share (PLN/EUR)	7.44	7.42	1.77	1.78
Declared or paid dividends per share (PLN/EUR)*	7.15	5.79	1.72	1.42

* *The presented ratios are related to declared dividend from the appropriation of the 2013 profit and dividend paid in 2013 from the appropriation of the 2012 profit.*

** *The following foreign exchange rates were applied to convert PLN into EUR: for the consolidated statement of financial position - NBP mid exchange rate as of 31 December 2013 - PLN 4.1472 (as of 31 December 2012: PLN 4.0882); for the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2013 – PLN 4.2110 (in 2012: PLN 4.1736).*

The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013

Contents

Consolidated income statement

For the period	Note	2013 PLN'000	2012 PLN'000
Interest and similar income	4	1,646,332	2,076,259
Interest expense and similar charges	4	(404,180)	(587,978)
Net interest income	**4**	**1,242,152**	**1,488,281**
Fee and commission income	5	762,772	707,240
Fee and commission expense	5	(120,470)	(108,382)
Net fee and commission income	**5**	**642,302**	**598,858**
Dividend income	**6**	**4,416**	**6,493**
Net income on trading financial instruments and revaluation	**7**	**349,000**	**371,993**
Net gain on debt investment securities	**8**	**305,339**	**279,451**
Net gain on capital investment instruments	**9**	**1,844**	**-**
Net gain on hedge accounting	**10**	**2,050**	**-**
Other operating income	11	57,193	34,834
Other operating expenses	11	(57,435)	(53,264)
Net other operating income	**11**	**(242)**	**(18,430)**
General administrative expenses	**12**	**(1,302,008)**	**(1,364,951)**
Depreciation expense	**13**	**(62,635)**	**(64,683)**
Profit/loss on sale of other assets	**14**	**1,050**	**84**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**15**	**36,204**	**(58,101)**
Operating profit		**1,219,472**	**1,238,995**
Share in net profits/losses of entities valued at equity method		**(1,326)**	**540**
Profit before tax		**1,218,146**	**1,239,535**
Income tax expense	**16**	**(245,438)**	**(269,403)**
Net profit		972,708	970,132
Including:			
Net profit for the Bank's shareholders		972,708	970,132
Weighted average number of ordinary shares (in pcs)	17	130,659,600	130,659,600
Net earnings per share (PLN)	17	7.44	7.42
Diluted net earnings per share (PLN)	17	7.44	7.42

Explanatory Notes on pages 24-87 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

For the period	Note	2013 PLN'000	2012 PLN'000
Net profit		**972,708**	**970,132**
Other comprehensive income:			
Net valuation of financial assets available-for-sale	18	(300,754)	340,085
Foreign exchange differences		414	(2,386)
Other comprehensive income after tax		**(300,340)**	**337,699**
Total comprehensive income for the period		672,368	1,307,831
Including:			
Comprehensive income due to the Bank's shareholders		672,368	1,307,831

Explanatory Notes on pages 24-87 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

As of	Note	31.12.2013 PLN'000	31.12.2012 PLN'000
ASSETS			
Cash and balances with Central Bank	19	778,464	1,357,308
Amounts due from banks	20	3,539,927	1,461,901
Financial assets held-for-trading	21	5,751,829	6,838,483
Debt securities available-for-sale	22	17,616,041	15,003,003
Equity investments valued at equity method	23	7,814	15,110
Equity investments available-for-sale	24	15,280	19,921
Amounts due from customers	25	15,231,327	16,221,412
Tangible fixed assets	26	384,581	409,916
Intangible assets	27	1,417,363	1,379,931
Current income tax receivables		80,854	2,702
Deferred income tax asset	29	203,132	218,786
Other assets	30	359,039	567,736
Non-current assets held-for-sale	31	12,738	12,554
Total assets		45,398,389	43,508,763
LIABILITIES			
Amounts due to banks	32	6,378,436	2,356,429
Financial liabilities held-for-trading	21	4,196,896	5,846,404
Hedging derivatives	33	24,710	-
Amounts due to customers	34	26,568,765	26,852,165
Provisions	36	89,284	28,656
Current income tax liabilities		84	55,343
Other liabilities	37	832,950	978,351
Total liabilities		38,091,125	36,117,348
EQUITY			
Share capital	39	522,638	522,638
Supplementary capital	39	2,997,759	3,011,380
Revaluation reserve	39	(42,963)	257,791
Other reserves	39	2,859,388	2,637,066
Retained earnings		970,442	962,540
Total equity		7,307,264	7,391,415
Total liabilities and equity		45,398,389	43,508,763

Explanatory Notes on pages 24-87 are an integral part of the annual consolidated financial statements.

Consolidated statement of changes in equity

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling shares	Total equity
As of 1 January 2013	522,638	3,011,380	257,791	2,637,066	962,540	-	7,391,415
Total comprehensive income including:	-	-	(300,754)	414	972,708	-	672,368
net profit	-	-	-	-	972,708	-	972,708
exchange rate differences from foreign units' conversion	-	-	-	414	-	-	414
valuation of financial assets available-for-sale (net)	-	-	(300,754)	-	-	-	(300,754)
Dividends paid	-	-	-	-	(756,519)	-	(756,519)
Transfer to capital	-	(13,621)	-	221,908	(208,287)	-	-
As of 31 December 2013	522,638	2,997,759	(42,963)	2,859,388	970,442	-	7,307,264

Note: 18, 39

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling shares	Total equity
As of 1 January 2012	522,638	3,009,396	(82,294)	2,264,082	730,659	-	6,444,481
Total comprehensive income, including:	-	-	340,085	(2,386)	970,132	-	1,307,831
net profit	-	-	-	-	970,132	-	970,132
exchange rate differences from foreign units' conversion	-	-	-	(2,386)	-	-	(2,386)
valuation of financial assets available-for-sale (net)	-	-	340,085	-	-	-	340,085
Dividends paid	-	-	-	-	(360,897)	-	(360,897)
Transfer to capital	-	1,984	-	375,370	(377,354)	-	-
As of 31 December 2012	522,638	3,011,380	257,791	2,637,066	962,540	-	7,391,415

Note: 18, 39

Explanatory Notes on pages 24-87 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

For the period	2013 PLN'000	2012 PLN'000
A. Cash flows from operating activities		
I. Net profit	972,708	970,132
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	(1,420,732)	(932,959)
Current and deferred income tax recognized in income statement	245,438	269,403
Share in net profits/losses of entities valued at equity method	1,326	(540)
Depreciation expense	62,635	64,683
Net impairment due to financial assets value loss	(37,878)	58,100
Net provisions (recoveries)	75,341	45,020
Net interest income	(1,242,152)	(1,488,281)
Profit/loss on sale of investments	(1,036)	(75)
Other adjustments	(6,599)	(20,013)
Cash flows from operating income before changes in operating assets and liabilities	(902,925)	(1,071,703)
Change in operating assets (excl. cash and cash equivalents)	(2,425,219)	(356,735)
Change in amounts due from banks	(1,923,465)	(790,557)
Change in amounts due from customers	1,031,456	(1,653,177)
Change in debt securities available-for-sale	(2,791,754)	3,200,122
Change in equity investments available-for-sale	4,715	1,792
Change in financial assets held-for-trading	1,040,797	(1,035,938)
Change in assets available-for-sale	(185)	(3,667)
Change in other assets	213,217	(75,310)
Change in operating liabilities (excl. cash and cash equivalents)	1,907,412	495,479
Change in amounts due to banks	3,971,067	(3,417,567)
Change in amounts due to customers	(280,422)	2,755,018
Change in amounts due to debt securities issuance	-	(25,325)
Change in liabilities held-for-trading	(1,649,508)	1,005,957
Change in amounts due to hedging derivatives	24,710	-
Change in other liabilities	(158,435)	177,396
Interest received	1,501,761	1,924,893
Interest paid	(398,417)	(586,285)
Income tax paid	(295,197)	(250,243)
III. Net cash flows from operating activities	360,123	1,125,538
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(28,286)	(32,144)
Disposal of tangible fixed assets	4,887	3,593
Purchase of intangible assets	(63,180)	(86,851)
Disposal of shares in subsidiaries	6,117	-
Disposal of fixed assets available-for-sale	88	15,760
Other investing inflows	438	43,372
Net cash flows from investing activities	(79,936)	(56,270)
C. Cash flows from financing activities		
Dividends paid	(756,519)	(360,897)
Inflows due to long-term loans from financial sector entities	135,102	593
Repayment of long-term loans from financial sector entities	(81,349)	(192,778)
Net cash flows from financing activities	(702,766)	(553,082)
D. Exchange rates differences resulting from cash and cash equivalents conversion	(1,581)	(16,046)
E. Net increase/decrease in cash and cash equivalents	(424,160)	500,140
F. Cash at the beginning of the period	1,544,322	1,044,182
G. Cash at the end of the period (see Note 48)	1,120,162	1,544,322

Explanatory Notes on pages 24-87 are an integral part of the annual consolidated financial statements.

Explanatory Notes to the consolidated financial statements

1. General information about the Bank and the Group

Bank Handlowy w Warszawie S.A. ("Bank" or "parent entity") has its registered office in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was founded on the strength of Notarial Deed of 13 April 1870 and is registered in the Register of Entrepreneurs in the National Court Register kept by the District Court for the Capital City of Warsaw, XII Commercial Department in Warsaw, under KRS number 0000001538.

The parent entity was given REGON number: 000013037 and tax identification number NIP: 526-030-02-91.

The parent entity and the entities of the Group were set up for an unspecified period of time.

The share capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common bearer shares with a nominal value of PLN 4.00 per share. The shares are quoted on the Warsaw Stock Exchange.

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

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets. Additionally, the Group operates in the following segments of business through its subsidiaries:

- brokerage operations;
- leasing services;
- investment operations.

These annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. show the data for the Bank as the parent and its subsidiaries (jointly "Group").

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2013	31.12.2012
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments II S.a.r.l.	Luxembourg	-	100.00

Financial information on subsidiaries, 31.12.2013

Subsidiaries fully consolidated

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets PLN'000	Liabilities PLN'000	Equity PLN'000	Revenues PLN'000	Profit/loss PLN'000
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	390,203	239,899	150,304	38,746	15,105
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary undertaking	100.00	44,041	764	43,278	12,132	(43)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	458,713	339,802	118,911	112,104	30,302
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares PLN'000	Assets PLN'000	Liabilities PLN'000	Equity PLN'000	Revenues PLN'000	Profit/loss PLN'000
HANDLOWY - INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary undertaking	100.00	7,814	10,947	8	10,939	196	103

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as of 28 February 2014, which is the entity's balance sheet date.

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares PLN'000	Assets PLN'000	Liabilities PLN'000	Equity PLN'000	Revenues PLN'000	Profit/loss PLN'000
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	390,203	239,899	150,304	38,746	15,105

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as of 28 February 2014, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2012

Subsidiaries fully consolidated

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets PLN'000	Liabilities PLN'000	Equity PLN'000	Revenues PLN'000	Profit/loss PLN'000
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	582,396	447,197	135,199	64,530	(15,165)
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	43,968	548	43,420	684	104
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	503,900	410,677	93,223	62,203	6,173
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares PLN'000	Assets PLN'000	Liabilities PLN'000	Equity PLN'000	Revenues PLN'000	Profit/loss PLN'000
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	6,948	7,049	293	6,757	1,189	467
HANDLOWY - INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,162	11,347	74	11,273	563	439

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the audited financial statements of the entities except for Handlowy-Investments S.A., and PPH Spomasz Sp. z o.o. w likwidacji. Financial data of Handlowy Investments S.A. originate from the audited financial statements prepared as of 28 February 2013, which was the entity's balance sheet date.

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares PLN'000	Assets PLN'000	Liabilities PLN'000	Equity PLN'000	Revenues PLN'000	Profit/loss PLN'000
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,307	7,049	293	6,757	1,189	467

2/ Indirect relationship via Handlowy Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares PLN'000	Assets PLN'000	Liabilities PLN'000	Equity PLN'000	Revenues PLN'000	Profit/loss PLN'000
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	582,396	447,197	135,199	64,530	(15,165)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the audited financial statements of the entities except for Handlowy-Investments S.A., and PPH Spomasz Sp. z o.o. w likwidacji. Financial data of Handlowy Investments S.A. originate from the audited financial statements prepared as of 28 February 2013, which was the entity's balance sheet date.

Financial data of subsidiaries that are not fully consolidated are immaterial to the consolidated financial statements. As of 31 December 2013, the financial data amounted to 0.02% of the Group's assets (as of 31 December 2012: 0.04%) and 0.01% of the Group's net profit (as of 31 December 2012: 0.1%), excluding elimination of transactions within the Group.

2. Significant accounting policies

Declaration of conformity

The annual consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by European Union and with other applicable regulations.

The annual consolidated financial statements have been approved by the Management Board of the Bank for publication on 13 March 2014. The financial statements will be finally approved by the General Meeting of the Bank.

In addition, the annual standalone financial statements of the parent entity have been prepared in accordance with the accounting policies described in this Note except for the principles of recognition and measurement of equity investments in subsidiaries, which are described in Note 2 of the annual standalone financial statements of the Bank.

The annual standalone financial statements were approved by the Management Board of the Bank for publication on 13 March 2014. The financial statements will be finally approved by the General Meeting of the Bank.

Basis of preparation

These annual consolidated financial statements of the Group have been prepared for the period from 1 January 2013 to 31 December 2013 and for the consolidated statements of financial situation as of 31 December 2013. The comparable financial data are presented for the period from 1 January 2012 to 31 December 2012.

The financial statements are presented in PLN (presentation currency), rounded to the nearest thousand and for the consolidated statements of financial situation as of 31 December 2012.

The financial statements have been prepared on the fair-value-basis for financial assets and financial liabilities measured at fair value in the income statement, including derivatives and available-for-sale financial assets with the exception of assets and liabilities whose fair value cannot be estimated in a reliable way. Other assets and liabilities are presented at amortized cost (loans and receivables, financial liabilities other than measured at fair value in the income statement) or at cost decreased by impairment losses.

The principal accounting policies, used when preparing these financial statements, were presented below. These policies were applied in the presented years continuously, with the exception of application of the following changes to standards and new interpretations effective for annual periods starting at or after 1 January 2013.

In these financial statements, for the first time the Group used the following standards, in force from 1 January 2013:

- IFRS 13 "Fair Value Measurements" – published in 2011. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements;
- IAS 19 (2011) "Employee Benefits". The changes in IAS 19 require actuarial gains and losses to be recognized immediately in other comprehensive income, eliminating the possibility of all changes in the defined benefit obligation in profit or loss, which was allowed under the requirements of previous version of IAS 19;
- IFRS 7 (change) "Financial Instrument: Disclosures" defines the requirements of disclosure of information on financial assets and liabilities compensating impact on financial situation of an entity.

The influence of the first application of the standards above on the financial statements of the Group, was not significant.

The Group has made the early application of amendments to IAS 36 "Impairment of Assets": Recoverable amount disclosures for non-financial assets, approved by the European Union on 19 December 2013 and valid from periods starting from 1 January 2014 or after this date. The amendments relate to the disclosure of information on estimation method of recoverable amount in the goodwill impairment test.

Standards and interpretations approved or awaiting European Union's approval that can have influence on financial statements of the Group:

- IFRS 9 "Financial Instruments" and implementation connected changes in IFRS 7 "Financial Instruments: Disclosures" - In November 2009 the International Accounting Standards Board issued IFRS 9 "Financial Instruments", which changes IAS 39 provisions in respect of classification and measurement of financial assets. The main change is the classification of financial assets into one of two categories: measured at fair value in the income statement and measured at amortized cost. The new standard will be applicable for periods beginning on or after 1 January 2015 with earlier application permitted. In November 2013 the Board published the changes in the first version of IFRS 9, including among others new rules of hedge accounting applying. The current version of the standard does not include the first application date. This date will be added after the Board finishes all the work in the project and changes within financial instruments accounting and publishes the final version of the standard.
- IFRIC 21 "Levies" as an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The interpretation explains that the obliging activity, causing the rise of the liability to bear the levies, is the activity described in the proper regulations conditioning the payment of levies;
- IFRS 12 "Disclosure of Interests in Other Entities" defines the requirements of disclosure of all the interests in subsidiaries, joint agreements, associates and unconsolidated structured entities.

The Group is estimating the impact of using the standard and interpretation on the financial statements. The real impact will be possible to be estimated after the Board publishes the final and complete version of IFRS 9.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed, including awaiting the European Union's approval are either not relevant to the Group's activity or would not have a material impact on the financial statements.

In order to prepare financial statements in accordance with IFRS, the management of the Bank has to make judgments, estimates and assumptions that have an impact on the amounts presented in the financial statements.

Estimates and associated assumptions are made on the basis of available historical data and many other factors that have been recognized as material in the presented period. These factors form the basis to make estimates of the balance-sheet value of assets and liabilities whose value cannot be estimated on the basis of other sources. Actual results could differ from those estimates.

Estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Basis of consolidation

Subsidiaries – definition

Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has power, directly or indirectly, to govern the financial and operating policies of an entity to obtain financial benefits from its activities. Control is usually connected with the possession of a majority of votes on governing bodies.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any identifiable purchased assets and assumed liabilities, including contingent liabilities, acquired in a business combination, are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair value of the Group's interest in the acquired identifiable net assets is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

Intra-group transactions and balances are eliminated on consolidation. Material unrealized gains and losses on transactions between Group companies are also eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency in all material aspects with the accounting policies adopted by the Group.

Subsidiaries which are not fully consolidated due to the immateriality of their financial statements in the consolidated financial statements of the Group, are presented in accordance with the equity method.

Foreign currency

The statement of financial position and contingent liabilities received and granted items denominated in foreign currencies are converted to PLN equivalents using the average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the statement of financial position.

Foreign currency transactions are converted at initial recognition to the functional currency (PLN) using the exchange rates prevailing at the date of transactions.

Foreign exchange profits and losses resulting from revaluation of the statement of financial position items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange, within the trade financial instruments and revaluation income.

The average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the statement of financial position is applied for foreign exchanges.

The exchange rates of the major currencies applied in the preparation of these financial statements are:

Waluta		31 December 2013 PLN	31 December 2012 PLN
1	USD	3.0120	3.0996
1	CHF	3.3816	3.3868
1	EUR	4.1472	4.0882

Financial assets and liabilities

Classification

The Group classifies its financial instruments into the following categories:

- financial assets or financial liabilities at fair value through profit or loss;
- loans and receivables;
- financial assets available-for-sale;
- other financial liabilities.

In the reporting period, the Group did not classify assets to investments held-to-maturity.

The Group classifies financial assets to particular categories on the date of their first recognition.

a. Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: (i) financial assets and liabilities held-for-trading and (ii) financial assets designated at fair value through profit or loss at initial recognition.
Assets or liabilities are included in this category once they were purchased with the primary objective of selling or repurchasing to generate short-term profits, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, or when they are classified to this category at the management's discretion provided that they meet the criteria from IAS 39. Derivative instruments, excluding hedging instruments, and selected debt securities are also categorized as held-for-trading.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on the active market. They arise when the Group provides funds to the debtor for any purpose except for the generation of short-term profits from trading in such loans or receivables. This category comprises, in the first instance, amounts due in respect of loans, purchased receivables and debt securities that are not quoted on the active market.

c. Financial assets available-for-sale

Financial assets available-for-sale are those non-derivative financial assets that (i) are classified by the Group in this category at initial recognition or (ii) are not classified in any other asset category. Selected debt and equity securities are classified in this category.

d. Other financial liabilities

Other financial liabilities are financial liabilities which are not classified as financial liabilities at fair value through profit or loss. Customers' deposits are primarily classified in this category.

Recognition and derecognition

Transactions of purchase or sale of financial assets at fair value through profit or loss and available-for-sale are recognized in the Group's statement of financial position and derecognized at transaction settlement date, i.e., the date on which the Group will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.

Loans and receivables are recognized at the time of mobilization of funds for the borrower.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when and only when they are extinguished, i.e., the obligation described in the agreement had been discharged, cancelled or expired.

Valuation

When financial assets or financial liabilities are recognized initially, they are measured at fair value plus, in the case of assets and liabilities not measured at fair value through profit or loss, significant transactional costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

After initial recognition the Group measures financial assets including derivatives that are assets at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets except for loans and receivables which are measured at amortized cost using the effective interest rate method, and investments in equity instruments for which no quotations on the active market are available and whose fair value cannot be reasonably determined.

After initial recognition financial liabilities are measured at amortized cost using the effective interest rate method except for financial liabilities that are measured at fair value through profit or loss. Financial liabilities that are measured at fair value through profit or loss, including derivatives that are liabilities, are measured at fair value.

Profits or losses resulting from the change of fair value of financial assets or financial liabilities, which are not the part of the hedging relationship, are recognized in the following way:

- in case of financial assets or financial liabilities measured at fair value through profit or loss, they are shown in revenues or expenses;
- profits or losses resulting from valuation of financial assets classified as available-for-sale are recognized in other comprehensive income. Revaluation write-offs for impairment of financial assets available-for-sale and exchange rate differences on monetary assets and liabilities are recognized in the income statement. When financial assets are excluded from the statement of financial position, accumulated profits or losses which were previously included in equity are recognized through profit or loss.

Interest accrued using the effective interest rate method is recognized through profit or loss.

Dividends on available-for-sale equity investments are recognized in profit and loss when the entity's right to receive payment is established.

The fair value of shares in companies other than subsidiaries and associates listed on the active market is based on their current purchase price. If the market for specific financial assets is inactive (this also applies to unlisted securities), the Group determines fair value using appropriate valuation techniques.

Finance lease receivables

The Group enters into lease agreements under which the Group transfers to the lessee, in return for a fee or benefits, the right to use an asset for an agreed period.

Assets under leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not included in the consolidated statement of financial position. A receivable representing an amount equal to the net investment in the finance lease is recognized.

The recognition of interest income under finance lease is based on an effective interest rate method reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Equity investments – shares in other entities

Shares in entities other than subordinated entities are classified as financial assets available-for-sale.

Derivatives

Derivative financial instruments are stated at fair value from the trade date. Fair value is determined by reference to their prices on the active market, including prices in recent market transactions, or using valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Derivatives which were not designated as hedging instruments according to hedge accounting rules, are classified as assets or liabilities held-for-sale and measured at fair value.

Embedded derivatives are accounted for as separate derivatives if the risks and economic characteristics of the embedded derivative are not closely related to the risks and characteristics of the host contract and the host contract is not measured at fair value through profit or loss.

Hedge accounting

The Group designates certain derivatives for hedging positions in hedge accounting. The Group applies fair value hedge accounting provided that meeting the criteria from IAS 39 – "Financial Instruments: Recognition and Measurement".

Fair value hedge is a hedge against the impact of changes in asset, liability or unrecognized firm commitment, or a separated part of such an asset, liability, to which a particular risk may be attributable and which may affect profit or loss.

Fair value hedge is recognized in the following way: profits or losses resulting from valuation of fair value of hedging instrument (hedging derivatives) are recognized in the income statement. Changes in valuation to fair value of financial instruments designated as hedging positions are recognized – in a part resulting from hedged risk - in the income statement. In case of other parts, the changes in carrying amount are booked in accordance with the general rules for a given class of financial instruments.

Offsetting financial instruments

Financial assets and financial liabilities are offset and presented in the statement of financial position on a net basis when there is a legally enforceable right to offset and their settlement is intended to take place on a net basis or to realize the asset and settle the liability simultaneously. Currently, the Group does not offset and present its financial assets and liabilities on a net basis.

Cash pooling

The Group offers its clients cash management services which consolidate balances within the structure of related accounts ("cash pooling"). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis only if they meet the requirements of IAS 39 regarding derecognition of financial assets and liabilities from the statement of financial position. Accounts receivable presented on a gross basis are presented as Amounts due from customers and accounts payable as customers' deposits.

Repurchase and resale agreements, repo / reverse repo transactions

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively, as well as repo and reverse repo transactions in securities. Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the statement of financial position as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method.

In case of sale of the securities previously purchased in the reverse repo transaction, the Group recognizes liabilities due to short sale of securities. These liabilities are evaluated in fair value.

Impairment of assets measured at amortized cost

On a commitment basis, the Group classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis). On the balance sheet date, the Group assesses if there is an objective evidence of impairment of one financial asset or a group of financial assets. A financial asset or a group of financial assets were impaired and the impairment loss was incurred only when there is an objective evidence of impairment resulting from one or more events taking place after the initial recognition of an asset (the loss event) and the loss event (or events) influences the future expected cash flows resulting from a financial asset or a group of financial assets which may be reliably estimated.

Objective evidence of impairment of a financial asset or group of financial assets includes the following events known to the Group:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as default or delinquency in interest or principal payments;
- granting the borrower a concession that the lender would not otherwise consider due to economic or legal reasons relating to the borrower's financial difficulty;
- high probability of the borrower's bankruptcy or other financial reorganization;
- the disappearance of an active market for this financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payments status of borrowers in the group; or
  - national or local economic conditions that are correlated with defaults on the assets in the group.

The losses expected as a result of future events regardless of their probability are not recognized.

Impairment allowances for incurred but not recognized credit losses

The Group creates impairment allowances for incurred but not recognized credit losses ("IBNR"). The IBNR impairment allowances process covers all receivables for which no evidence of impairment was found or for which such evidence was found but the individual assessment of possible impairment did not confirm the need to write them down. The IBNR impairment allowances reflect the level of a credit loss incurred but not reported, which will be identified at the level of exposure in the period of loss recognition adopted by the Group. The IBNR impairment allowances are calculated using statistical parameters for the groups of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Group corrects credit exposure with the value of the IBNR impairment allowances.

Impairment allowances for individually significant assets

The level of impairment allowances for receivables that are deemed as individually significant and for which evidence of impairment was detected is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash settlement of collateral or from sale of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

If the present value of the estimated cash flows increases following an event occurring after impairment was identified, the write-off that was previously made will be reversed as appropriate through profit or loss.

Impairment allowances for individually not significant assets

The level of impairment allowances for receivables that are deemed as individually not significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment which is based on the history of losses incurred on assets with similar risk characteristics.

Impairment allowances for amounts due from banks and customers, allowances for impairment of securities and other assets adjust the value of particular asset categories. Provisions for contingent liabiabilities are shown in the liabilities section "Provisions."

Non-recoverable loans (i.e., loans for which the Group does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) are, on the basis of Group's decision, written down against impairment allowances. If a written-down amount is subsequently recovered, the amount of income is presented in "Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted".

Impairment of financial assets available-for-sale

For financial assets classified as available-for-sale, for which there is objective evidence of impairment, the cumulative loss recognized in equity which is the amount of the difference between the purchase price adjusted for subsequent payment and amortization and fair value, taking into account the previous impairment losses, should be transferred to the income statement. Impairment losses on equity investments classified as available-for-sale are not reversed through profit or loss. Loss on impairment of debt instruments classified as available-for-sale are reversed through profit or loss, if in subsequent periods the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the loss.

Impairment of financial assets measured at cost

The group of financial assets measured at cost in the financial statements of the Group consists of shares in entities other than subordinated entities classified as available-for-sale for which the fair value cannot be reasonably measured (for example the assets are not quoted) and equity investments in subordinated entities measured at purchase price in accordance with IAS 27 (Consolidated and Separate Financial Statements). In case of objective evidence of impairment of equity investments, the amount of impairment is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate for similar financial assets. Losses related to impairment of shares in entities other than subordinated entities classified as available-for-sale where the fair value cannot be reliably measured are not reversed through profit or loss.

Impairment of assets other than financial assets

The carrying amounts of the Group's assets, excluding deferred tax assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment.
If so, the assets' recoverable amount is estimated.

Revaluation impairment allowances are recognized if the book value of an asset or of cash- generating unit exceeds the recoverable amount. Revaluation impairment allowances are recognized in profit or loss.

In the case of a cash-generating unit, revaluation impairment allowances first reduce the goodwill allocated to such cash-generating units (group of units) and then proportionally reduce the carrying value of other assets in the unit (group of units).

Calculation of recoverable amount

The recoverable amount in case of assets other than financial assets is higher fair value less selling costs and value in use. For value in use calculation, the estimation of future cash flows are discounted to its present value using discount rate before taxation, which represent present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for cash-generating unit, the asset owner.

Reversal of revaluation write-offs

Revaluation write-offs for impairment, excluding goodwill, are reversed if the estimations for recoverable amount have changed.

The revaluation write-off for impairment for other assets can be reversed only to the level by which the book value of the asset do not exceed the depreciation decreased book value that would be estimated if the impairment write-off was not recognized.

Goodwill

In the consolidated financial statements of the Group, goodwill represents the difference between the cost of the acquisition and the fair value of the Group's interest in identifiable assets, liabilities and contingent liabilities acquired at the business combination date. Goodwill is included in intangible assets. Goodwill is stated at cost minus any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment.

In respect of associates, goodwill is included in the carrying amount of the investment in the associate.

Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.

Goodwill resulting from takeovers that occurred before 31 March 2004, i.e., the effective date of IFRS 3 ("Business Combinations"), was calculated in accordance with the previous accounting policies, as the difference between the cost of acquisition of an entity and the net asset value of the acquired entity at the acquisition date.

Property and equipment and intangible assets (excluding goodwill)

Property and equipment and intangible assets are stated at historical cost minus accumulated depreciation or amortization and impairment losses. The historical cost of an item of property and equipment and intangibles includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment or intangibles is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure, e.g., repairs and maintenance is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2013.

Illustrative annual depreciation and amortization rates applied by the Group are presented in the table below:	
Buildings and structures	1.5% - 4.5%
Motor vehicles	14.0% - 20.0%
Computers	34.0%
Office equipment	20.0%
Other tangible fixed assets	7.0% - 20.0%
Computer software and licenses (except the main operating systems, which are depreciated at the rate of 10% and 20%)	34.0%
Other intangible fixed assets	20.0%
Leasehold improvements - compliant with lease agreement period	

At each balance sheet date, the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted where appropriate.

Assets with original cost less than PLN 3,500 are fully depreciated on a one-off basis when brought into use. The total cost of other tangible fixed assets depreciated on a one-off basis is not material to the financial statements.

Assets in the course of construction are stated at the total of costs directly attributable to construction, assembly or improvement in progress less impairment write-offs.

Property and equipment includes rights to perpetual usufruct of land.

Items of property and equipment and intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment or intangible asset is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of property and equipment is the higher of its fair value less costs of sale and value in use.

Employee benefits

Short-term employee benefits

The Group's short-term employee benefits include wages, bonuses, holiday pay and social security contributions.

Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated.

Short-term employee benefits are recognized as an expense in the period when they were incurred.

Share-based payments

Within the equity compensation plans the selected employees get awards under stock option programs based on stock options granted on Citigroup common stock (SOP), under stock award programs based on shares of Citigroup common stock in the form of deferred stock (CAP) and also under stock award programs based on phantom shares of Bank Handlowy w Warszawie S.A.

In accordance with IFRS 2 "Share-based payment", all the programs functioning in the Group are deemed to be cash-settled programs. A provision is created for future payments and is shown in "Other liabilities" and in "General administrative expenses" in the income statement. The costs of the program are determined on the basis of a valuation model for the option program and based on the Bank's shares price or Citigroup shares price for share-based programs. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value of the options or deferred shares at the reporting date times the part of the rights that were deemed acquired in that period.

Long-term employee benefits

Under its compensation scheme, the Group guarantees its employees retirement allowances which depend on the length of service with the Group directly prior to the acquisition of the right to such benefits. Employees who are hired under a contract of employment in accordance with the Company Collective Labor Agreement have the right to an additional award for a fixed length of service. A provision is created for future payments. The provision is shown in "Other liabilities" and in "General administrative expenses" in the income statement, except the profits and losses from revaluation of provision for retirement allowances, which are recognized in other comprehensive income. Provisions for the future costs of retirement allowances and long-service awards are calculated on the basis of actuarial assumptions. The actuarial measurement is subject to periodic revaluations.

A component of variable remuneration granted to the Management Board and to the persons holding the managerial positions, having a significant impact on the Bank's risk profile, is also the deferred cash prize described in detail in Note 51 "Employee benefits".

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 51. The Group pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions; hence, this is a defined contribution plan in accordance with IAS 19 ("Employee Benefits"). Contributions are recognized as an expense in the related period.

Provisions

A provision is recognized in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

Restructuring provision

A restructuring provision is recorded when the following conditions have been met: (i) the Group has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Equity

Equity is stated at nominal value, with the exception of the equity from revaluation reserve of available-for-sale financial assets that is stated after the effect of deferred income tax.

Dividends are recognized as liabilities on the date at which the General Meeting of the Bank has approved the appropriation of earnings.

Accruals and prepayments

The Group records accruals and prepayments of expenses primarily in relation to the Group's overhead expenses in reporting periods to which they relate.

Calculating net income

Net income is calculated in compliance with the accrual accounting and the matching concept. Net income reflects all income and relevant expenses set off against income within a particular reporting period, irrespective of the day on which these are received or paid.

Interest income and interest expenses

For all financial instruments, interest income and interest expense is recognized through the profit or loss account using the effective interest rate method.

The effective interest rate method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that precisely discounts the estimated futures inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the Group takes into account all the terms and conditions of a financial instrument agreement (e.g., prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transactional costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate less direct costs of obtaining the financial instrument are recognized as components of interest income.

In the case of financial assets or groups of similar financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Interest income/expenses from derivatives designated as derivatives in hedge accounting are presented in the net interest income.

Penalty interests resulting from income tax exposure are included in "Other operational income" or "Other operational expenses" in the income statement.

Fee and commission income and expenses

Commission and fee income is generated when the Group renders financial services to its customers. The Group classifies its commission into the following categories:

- commissions that are an integral part of the effective interest rate;
- commissions for services rendered;
- commissions for executing significant transactions.

Commissions that are an integral part of the effective interest rate are recognized in the income statement adjusted by the calculation of the effective interest rate and are shown in interest income.

Commissions for services rendered and for executing significant transactions are recognized in the income statement, in proportion to the completion of the services rendered, or as a single amount after completing the rendering of a service, respectively and are shown in commission income.

In the case of loans and borrowings with undetermined installment payment dates, e.g., overdrafts or credit cards, commissions and fees are recognized using the straight-line method until the expiry date of a credit limit. Such commissions and fees are recognized as commission income.

Income and expense from distribution of insurance products

The Group renders insurance products intermediary services. Income for the distribution of insurance products not directly relating to occurrence of financial assets is recognized in the income statement when the service has been provided or renewal of the insurance policy has taken place, except for the part of remuneration for services provided after the sale, which is amortized over the life of the facility using the straight-line method.

In case of insurance products directly attributable to financial assets, in which the Group receives fees and commissions up-front for periods longer than a month, the Group's remuneration is shared between:

- income on account of services provided as an insurance agent, and
- income recognized in the Income Statement as effective interest rate component, adjusted by the estimated amounts of potential future returns in case of early termination of insurance products based on the share of the fair value of each of these parts in the total of their fair values.

Part of income corresponding to services rendered by the Group after the sale of insurance product is bifurcated from income on account of services provided as an insurance agent and the portion is recognized over the life of the facility. The remainder is recognized up-front.

Costs directly attributable to the acquisition of cash loan are amortized over the life of the product as effective interest rate component and are part of the interest income.

If the Group incurs costs directly associated with the sale of an insurance product, such costs are accounted for in accordance with the principle of matching revenues and expenses. Costs not directly associated with the sale of insurance products are recognized when incurred.

Hedge accounting income

The valuation of hedged and hedging transactions in fair value hedge accounting is presented in this position.

Other operating income and expenses

Other operating income and expenses comprise income and expenses that are not directly related to banking activities. They include proceeds from and costs of selling or disposing of tangible fixed assets and assets held for disposal, income from processing data for related companies, compensation, penalties and fines.

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated in the other comprehensive income.

A deferred tax provision and asset are calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities in the statement of financial position and the tax base of assets and liabilities. In the statement of financial position the Group discloses the deferred tax asset net of deferred tax provisions after compensation, when there is a legal title to set such a compensation and when provision and asset refer to the same taxpayer.

Deferred tax assets are recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Segment reporting

A segment is a separate part of the Group's operations, generating income and expenses (including from transactions within the Group), whose operating results are regularly analyzed by the Management Board as the main decision-making body, in order to allocate resources and assess its performance.

The Group is managed at the level of two main business segments - Corporate Bank and Consumer Bank. Detailed information about the segments of the Group is presented in Note 3.

Assets and liabilities, revenues and financial results of particular segments are measured in accordance with the accounting policies and standards adopted by the Group.

Non-current assets held-for-sale

Assets or groups of assets together with liabilities directly associated with those assets are classified as non-current assets held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets or group of assets must be available for immediate sale in their present condition and the sale must be highly probable, which means that there is a commitment to a plan to sell the assets and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the assets or group of assets must be actively marketed for sale at a price that is reasonable in relation to its present fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the assets or group of assets.

Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation. No depreciation or amortization applies to such assets.

Accounting estimates and judgments

Determination of the carrying values of selected assets and liabilities as well as revenue and expense requires estimating the effect of uncertain future events on these items at the balance sheet date. The estimates and assumptions are subject to continuous evaluation and are based on historical experience and other factors, including expectations of future events which seem justified in a given situation. The most crucial estimates applied in the preparation of the financial statements are presented below.

Fair value of derivatives

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

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

- FX forwards – discounted cash flows model;
- options – option market-based valuation model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

The Group uses Credit Default Swap quotation for valuation of counterparty credit risk

The group differentiates the valuation of counterparty risk due to the availability of quotations of credit derivatives (CDS):

- Counterparty Credit Risk of companies for which there is active CDS market: It is considered that the CDS quotes reflect the market value of the credit risk;

- Counterparty Credit Risk of companies for which there is no active CDS market: On the basis of credit rating (external or internal, when external rating is not available) and industry, the CDS index (for a given industry) is assigned to the company. It is considered that the industry index CDS quotes reflect the market value of the credit risk.

In case of valuation of own credit counterparty risk (DVA), the Group is using a method defined for clients for which there is no active CDS market.

Main factors determining the change of counterparty credit risk estimations are:

- change of fair value of derivative instruments correlated with change of, inter alia, fx rates and interests rates,
- change of CDS quotes
- changes of credit risk ratings.

Impairment of loans

At each balance sheet date, the Group assesses whether there is an objective evidence of impairment of loan exposures. If so, the Group records a write-off equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. The Group applies collective analysis of financial assets in respect of which evidence of impairment has not been identified individually, or in spite of finding the evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment write-off. For the purpose of collective evaluation of impairment, the credit exposures are grouped in order to ensure the uniformity of credit risk attached to the given portfolio. For the purpose of calculation of the amount to be provisioned against balance sheet exposures analyzed collectively the Group has applied, among others, the probability of default (PD) and loss resulting from default (LGD).

The Group uses estimates to determine whether there is objective evidence of impairment, calculate the present value of future cash flows and estimate collective impairment provision. Estimates may include observable data indicating an adverse change in macroeconomic conditions or standing of borrower's qualified to a particular portfolio. If necessary, historical loss experience may be adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based.

The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required. Further, data are backtested (based on historical data) to compare the actual amounts with estimated credit impairment, what may have influence on methodology applied by the Group.

Impairment of goodwill

The Group carries out obligatory annual impairment tests of goodwill in accordance with the model based on guidance from IAS 36. The basis of valuation of the recoverable amount of cash-generating units, to which the goodwill is assigned, is their value in use which is estimated by the Bank's management basing on the financial plan reflecting the adopted assumptions on the future economic conditions and the expected Bank's performances, the discount rate used in cash flow forecasts and the growth rate used to extrapolate cash flow forecasts beyond the period covered by the financial plan.

Employee benefits

Provisions for future payments in respect of employee benefits guaranteed by the Company Collective Labor Agreement such as jubilee awards and retirement allowances are subject to periodic estimation by an independent actuary.

Provisions are calculated on the basis of a number of assumptions on financial discount and probability of the given person reaching the retirement age as the Group's employee, including staff turnover, risk of death and risk of total work incapacity.

3. Segment reporting

A segment is a separable component of the Group engaged in business activities, generating income and expenses (including intergroup transactions), whose operating results are regularly reviewed by the Management Board as the chief operating decision-maker of the Group in order to allocate resources and assess its performance.

The Group is managed at the level of two main business segments – Corporate Bank and Consumer Bank. The valuation of a segment's assets and liabilities as well as calculation of financial results comply with the Group's accounting policies applied in the preparation of the financial statements, including intergroup transactions between segments.

The allocation of the Group's assets, liabilities, revenues and expenses to segments was made on the basis of internal information prepared for management purposes. Transfer of funds between the Group's segments is based on market prices. Transfer prices are calculated using the same rules for both segments and any difference results only from maturity and currency structure of assets and liabilities. The basis for assessment of the segment performance is gross profit or loss.

The Group conducts its operations solely on the territory of Poland.

Corporate Bank

Within the Corporate Bank segment, the Group offers products and renders services to business entities, local government units and the public sector. Apart from traditional banking services including credit and deposit activities, the segment provides services in the area of cash management, trade financing, leases, brokerage, custody services in respect of securities and offers treasury products on financial and commodity markets. In addition, the segment offers investment banking services on the local and international capital markets, including advisory services, obtaining and underwriting financing via public and non-public issues of financial instruments. The activities of the segment also include proprietary transactions in the equity, debt and derivative instruments markets.

Consumer Bank

Within the Consumer Bank segment, the Group provides products and financial services to individuals as well as to micro-enterprises and individual entrepreneurs within the framework of CitiBusiness offer. Apart from keeping bank accounts and providing credit and deposit offer, the Group offers cash loans, mortgage loans, credit cards, provides asset management services, and acts as agent in the sale of investment and insurance products.

Income statement of the Group by business segment

For the period PLN'000	2013			2012		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	581,022	661,130	1,242,152	715,122	773,159	1,488,281
Internal net interest income, including:	(42,238)	42,238	-	(8,956)	8,956	-
internal income	-	42,238	42,238	-	8,956	8,956
internal costs	(42,238)	-	(42,238)	(8,956)	-	(8,956)
Net fee and commission income	296,526	345,776	642,302	250,901	347,957	598,858
Dividend income	1,485	2,931	4,416	2,779	3,714	6,493
Net income on trading financial instruments and revaluation	315,639	33,361	349,000	335,731	36,262	371,993
Net gain on debt investment securities	305,339	-	305,339	279,451	-	279,451
Net gain on capital investment instruments	1,844	-	1,844	-	-	-
Net gain on hedge accounting	2,050	-	2,050	-	-	-
Other operating income	27,086	(27,328)	(242)	8,605	(27,035)	(18,430)
General administrative expenses	(559,520)	(742,488)	(1,302,008)	(628,024)	(736,927)	(1,364,951)
Depreciation expense	(25,823)	(36,812)	(62,635)	(30,106)	(34,577)	(64,683)
Profit/loss on sale of other assets	915	135	1,050	54	30	84
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	(26,113)	62,317	36,204	(28,111)	(29,990)	(58,101)
Operating profit	920,450	299,022	1,219,472	906,402	332,593	1,238,995
Share in net profits/losses of entities valued at equity method	(1,326)	-	(1,326)	540	-	540
Profit before tax	919,124	299,022	1,218,146	906,942	332,593	1,239,535
Income tax expenses			(245,438)			(269,403)
Net profit			972,708			970,132

As of PLN'000	31.12.2013			31.12.2012		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Total assets, including:	**39,816,056**	**5,582,333**	**45,398,389**	**37,764,514**	**5,744,249**	**43,508,763**
Assets valued at equity method	7,814	-	7,814	15,110	-	15,110
Non-current assets held-for-sale	-	12,738	12,738	-	12,554	12,554
Total liabilities and equity, including:	**36,070,064**	**9,328,325**	**45,398,389**	**34,667,691**	**8,841,072**	**43,508,763**
Liabilities	30,416,864	7,674,261	38,091,125	29,193,148	6,924,200	36,117,348

4. Net interest income

	2013 PLN'000	2012 PLN'000
Interest and similar income due to:		
Balances with Central Bank	26,171	38,240
Amounts due from banks	45,142	54,905
Amounts from customers, including:	1,042,860	1,260,149
financial sector entities	37,430	38,503
non-financial sector entities	1,005,430	1,221,646
Debt securities available-for-sale	446,389	621,697
Debt securities held-for-trading	85,770	101,268
	1,646,332	2,076,259
Interest expense and similar charges due to:		
Balances with Central Bank	(1)	(1)
Amounts due to banks	(47,674)	(83,657)
Amounts due to financial sector entities	(101,451)	(125,156)
Amounts due to non-financial sector entities	(246,228)	(372,293)
Loans and advances received	(3,311)	(6,119)
Debt securities issuance	-	(752)
Derivatives in hedge accounting	(5,515)	-
	(404,180)	(587,978)
Net interest income	1,242,152	1,488,281

Net interest income for 2013 includes interest accrued on impaired loans of PLN 12,109 thousand (for 2012: PLN 13,144 thousand).

5. Net fee and commission income

	2013 PLN'000	2012 PLN'000
Fee and commission income:		
Insurance and investment products (agency)	140,595	124,668
Payment and credit cards	233,716	254,393
Payment services	105,892	108,116
Custody services	104,521	87,744
Charges from cash loans	5,417	7,066
Brokerage operations	86,489	47,562
Cash management services on customers' accounts	26,007	28,478
Guarantees granted	14,090	14,397
Financial liabilities granted	5,343	5,960
Other	40,702	28,856
	762,772	707,240
Fee and commission expense:		
Payment and credit cards	(57,944)	(55,704)
Brokerage operations	(24,801)	(19,921)
Fees paid to the National Depository for Securities (KDPW)	(21,060)	(16,633)
Broker's fees	(4,595)	(4,049)
Other	(12,070)	(12,075)
	(120,470)	(108,382)
Net fee and commission income	642,302	598,858

The net fee and commission income for 2013 comprises commission income (other than income covered by the calculation of the effective interest rate process) related to financial assets and liabilities not measured at fair value through profit or loss in the amount of PLN 240,269 thousand (for 2012: PLN 262,109 thousand) and commission expenses in the amount of PLN 57,944 thousand (for 2012: PLN 55,704 thousand).

6. Dividend income

	2013 PLN'000	2012 PLN'000
Securities available-for-sale	4,189	5,153
Securities held-for-trading	227	1,340
Total dividend income	4,416	6,493

7. Net income on trading financial instruments and revaluation

	2013 PLN'000	2012 PLN'000
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	31,312	241,066
Equity instruments	(470)	2,459
Derivative instruments, including:	31,511	(96,038)
Interest rate	28,237	(98,118)
	62,353	147,487
Net profit on foreign exchange		
Net profit on foreign currency derivatives	32,509	(181,742)
Revaluation	254,138	406,248
	286,647	224,506
Net income on trading financial instruments and revaluation	349,000	371,993

The impact on valuation resulting from counterparty credit risk on derivative transactions for 2013 in the amount of PLN 28,868 thousand (in 2012, net write-offs amounted to PLN 10,698 thousand) is included in net income on trading financial instruments and revaluation.

Net income from debt instruments includes the net results on trading in government securities, corporate debt securities and money market instruments held-for-trading.

Income from derivative instruments includes net income due to transactions in interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on valuation of assets and liabilities denominated in a foreign currency and foreign currency derivatives such as forward, CIRS and option contracts and also contains a margin realized on spot and forward currency transactions.

8. Net gain on debt investment securities

	2013 PLN'000	2012 PLN'000
Net gain from debt securities available-for-sale	305,339	279,451

9. Net gain on capital investment instruments

	2013 PLN'000	2012 PLN'000
Net gain from capital investment instruments available-for-sale	1,844	-

10. Hedge accounting income

	2013 PLN'000	2012 PLN'000
Fair value of securities hedge accounting		
Net gain on hedged transaction valuation	26,474	-
Net gain on hedging transaction valuation	(24,424)	-
Hedge accounting income	**2,050**	**-**

Detailed information on hedge accounting applied in the Bank is presented in the further part of these Statements in Note 42.

11. Net other operating income

	2013 PLN'000	2012 PLN'000
Other operating income		
Services for related parties	10,497	8,120
Rental of office space	7,417	6,499
Income from settlement of value added tax from previous years	6,500	-
Other	27,946	20,215
	52,360	**34,834**
Other operating expenses		
Amicable procedure and debt collection expenses	(20,197)	(19,043)
Fixed assets held-for-sale valuation	-	(1,014)
Fixed assets held-for-sale maintenance cost	(399)	(1,681)
Creation of provisions for litigations (net)	(9,221)	(517)
Other	(22,785)	(31,009)
	(52,602)	**(53,264)**
Net other operating income	**(242)**	**(18,430)**

12. General administrative expenses

	2013 PLN'000	2012 PLN'000
Staff expenses		
Remuneration costs, including:	(495,298)	(528,146)
Provisions for retirement allowances	(25,807)	(27,123)
Bonuses and rewards, including:	(123,304)	(114,379)
Payments related to own equity instruments	(36,189)	(7,880)
Rewards for long time employment	(726)	(1,170)
Social insurance costs	(71,023)	(77,526)
	(689,625)	(720,051)
Administrative expenses		
Telecommunication fees and hardware purchases	(191,038)	(170,003)
Costs of external services, including advisory, audit, consulting services	(63,019)	(81,470)
Building maintenance and rent costs	(101,919)	(111,841)
Advertising and marketing costs	(23,321)	(49,375)
Cash management service, KIR service and other transactional costs	(47,600)	(46,853)
Costs of external services related to the distribution of banking products	(55,249)	(54,037)
Postal services, office supplies and printmaking costs	(19,098)	(25,118)
Training and education costs	(7,171)	(5,384)
Banking supervisory expenses	(1,173)	(3,179)
Other expenses	(102,795)	(97,640)
	(612,383)	(644,900)
Total general administrative expenses	(1,302,008)	(1,364,951)

Staff expenses in 2013 include PLN 37,040 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2012: PLN 22,817 thousand).

Remuneration costs of the period from 1 January 2013 to 31 December 2013 include the cost of workforce restructuring started in 2013 at PLN 57,720 thousand. Building maintenance and rent costs of the period from 1 January 2013 to 31 December 2013 include the cost of restructuring of the consumer bank branch network started in 2013 at PLN 7,193 thousand. The total cost of restructuring provisions was PLN 64,913 thousand. The amount used by 31 December 2013 was PLN 3,933 thousand for workforce restructuring and PLN 159 thousand for restructuring of the consumer bank branch network (see Note 36). It is assumed the workforce restructuring process will be finished by the end of October 2014.

Remuneration costs of the period from 1 January 2012 to 31 December 2012 include the cost of workforce restructuring at PLN 32,400 thousand in 2012. Building maintenance and rent costs of the period from 1 January 2012 to 31 December 2012 include the cost of restructuring of the consumer bank branch network at PLN 9,808 thousand in 2012. The total cost of restructuring provisions was PLN 42,208 thousand. The amount used by 31 December 2012 was PLN 32,400 thousand for workforce restructuring and PLN 6,067 thousand for restructuring of the consumer bank branch network. The remaining amount of provision for restructuring of the consumer bank branch network created in 2012 was used in 2013 at amount PLN 3, 229 thousand and resolved at PLN 512 thousand (see Note 36).

13. Depreciation expense

	2013 PLN'000	2012 PLN'000
Depreciation of property and equipment	(39,422)	(46,057)
Amortization of intangible assets	(23,213)	(18,626)
Depreciation expense, total	(62,635)	(64,683)

14. Sale of other assets

	2013 PLN'000	2012 PLN'000
Profits on:		
Sale of tangible fixed assets	424	102
Sale of fixed assets held-for-sale	88	-
Sale of shares in subsidiaries	585	-
	1,097	102
Losses on:		
Sale of tangible fixed assets	(47)	(18)
	(47)	(18)
Sale of other assets	1,050	84

15. Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted

	2013 PLN'000			
	Corporate customers	Retail customers	Banks	Total
Impairment allowances for financial assets:				
Amounts due from customers	(103,926)	(136,091)	(2,697)	(242,714)
Amounts due from matured transactions in derivative instruments	(6,374)	-	-	(6,374)
Other	(10,133)	(1,976)	-	(12,109)
	(120,433)	(138,067)	(2,697)	(261,197)
Reversals of impairment allowances for financial assets:				
Amounts due from customers	93,944	167,916	1,661	263,521
Amounts due from matured transactions in derivative instruments	1,560	-	-	1,560
Recovery on sale of debt	-	33,994	-	33,994
	95,504	201,910	1,661	299,075
Net impairment due to financial assets value losses	(24,929)	63,843	(1,036)	37,878
Establish of provisions for granted financial and guarantee commitments	(32,514)	(14)	-	(32,528)
Release of provisions for granted financial and guarantee commitments	30,219	588	47	30,854
Net impairment due to provisions for granted financial and guarantee commitments	(2,295)	574	47	(1,674)
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	(27,224)	64,417	(989)	36,204

	2012 PLN'000			
	Corporate customers	Retail customers	Banks	Total
Impairment write-offs of financial assets:				
Equity investments	(5,092)	-	-	(5,092)
Amounts due from customers	(109,698)	(185,962)	(865)	(296,525)
Amounts due from matured transactions in derivative instruments	(1,518)	-	-	(1,518)
Other	(13,144)	-	-	(13,144)
	(129,452)	(185,962)	(865)	(316,279)
Reversals of impairment write-offs of financial assets:				
Amounts due from customers	95,707	146,366	797	242,870
Amounts due from matured transactions in derivative instruments	759	-	-	759
Recovery on sale of debt	378	14,173	-	14,551
	96,844	160,539	797	258,180
Net impairment due to financial assets value losses	(32,608)	(25,423)	(68)	(58,099)
Establishment of provisions for granted financial and guarantee commitments	(22,752)	-	(16)	(22,768)
Release of provisions for granted financial and guarantee commitments	22,760	6	-	22,766
Net impairment due to provisions for granted financial and guarantee commitments	8	6	(16)	(2)
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	(32,600)	(25,417)	(84)	(58,101)

16. Income tax expense

Recognized in the income statement

	2013 PLN'000	2012 PLN'000
Current tax		
Current year	(155,875)	(227,705)
Adjustments for prior years	(3,272)	(1,576)
	(159,147)	(229,281)
Deferred tax		
Origination and reversal of temporary differences	(86,202)	(20,220)
Written-off assets due to deferred tax	(89)	(19,898)
Movement in receivables arising from tax deductions	-	(4)
	(86,291)	(40,122)
Total income tax expense in income statement	(245,438)	(269,403)

Reconciliation of effective tax rate

	2013 PLN'000	2012 PLN'000
Profit before tax	1,218,146	1,239,535
Income tax at the domestic corporate tax rate of 19%	(231,448)	(235,512)
Non-deductible expenses, including:	(15,647)	(12,883)
impairment write-offs	(9,328)	(3,891)
Deductible income not recognized in the income statement	(536)	(1,022)
Deductible expenses not recognized in the income statement	546	(7)
Non taxable income	5,329	567
Written-off assets due to deferred tax	-	(19,898)
Other	(3,682)	(648)
Total tax expenses	(245,438)	(269,403)
Effective tax rate	20.15%	21.73%

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as of 31 December 2013 is related to debt and equity instruments available-for-sale and amounted to PLN 10,078 thousand (31 December 2012: PLN (60,470) thousand).

17. Earnings per share

As of 31 December 2013, earnings per share amounted to PLN 7.44 (31 December 2012: PLN 7.42).

The calculation of earnings per share at 31 December 2013 was based on profit attributable to ordinary shareholders of PLN 972,708 thousand (31 December 2012: PLN 970,132 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2013 of 130,659,600 (31 December 2012: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact or any other dilutive instruments.

18. Changes in other comprehensive income

Deferred income tax and reclassification included in other comprehensive income concern the valuation of financial assets available-for-sale (AFS) recognized in the revaluation reserve.

	Gross amount PLN'000	Deferred income tax PLN'000	Net amount PLN'000
As of 1 January 2013	**318,261**	**(60,470)**	**257,791**
AFS valuation change	(65,963)	12,534	(53,429)
Valuation of sold AFS moved to income statement	(305,339)	58,014	(247,325)
As of 31 December 2013	(53,041)	10,078	(42,963)

	Gross amount PLN'000	Deferred income tax PLN'000	Net amount PLN'000
As of 1 January 2012	**(101,597)**	**19,303**	**(82,294)**
AFS valuation change	699,309	(132,869)	566,440
Valuation of sold AFS moved to income statement	(279,451)	53,096	(226,355)
As of 31 December 2012	318,261	(60,470)	257,791

19. Cash and balances with the Central Bank

	31.12.2013 PLN'000	31.12.2012 PLN'000
Cash in hand	532,142	474,301
Current balances with Central Bank	246,322	883,007
Cash and balances with the Central Bank, total	778,464	1,357,308

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve which may be used only under the condition that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

Declared balance of obligatory reserve amounted as of 31 December 2013 PLN 1,076,336 thousand (31 December 2012: PLN 824,715 thousand).

20. Amount due from banks

Amounts due from banks (by category)

	31.12.2013 PLN'000	31.12.2012 PLN'000
Current accounts	342,006	177,111
Deposits	614,985	85,964
Loans and advances	347,686	347,086
Receivables due to purchased securities with repurchase agreement	1,841,873	765,279
Deposits pledged as collateral	394,188	75,062
Other receivables	362	11,525
Total gross amount	3,541,100	1,462,027
Impairment write-offs	(1,173)	(126)
Total net amount due from banks	3,539,927	1,461,901

The movement in amounts due from banks is as follows:

	2013 PLN'000	2012 PLN'000
As of 1 January	(126)	(63)
Increases (due to):		
Write-offs creation	(2,697)	(865)
Other	(11)	-
Decreases (due to):		
Write-offs release	1,661	797
Other	-	5
As of 31 December	(1,173)	(126)

As of 31 December 2013 and 31 December 2012, recognized impairment on amounts due from banks concerned incurred but not reported (IBNR) write-offs.

21. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

	31.12.2013 PLN'000	31.12.2012 PLN'000
Debt securities held-for-trading		
Bonds and Notes issued by:		
Banks*	114,137	246,409
Government	2,101,536	2,285,646
	2,215,673	2,532,055
Including:		
Listed	1,544,888	2,508,343
Unlisted	670,785	23,712
Equity instruments held-for-trading	5,030	-
Including:		
Listed	5,030	-
Derivative financial instruments	3,531,126	4,306,428
Financial assets held-for-trading, total	5,751,829	6,838,483

*As of 31 December 2013, some of the securities (bonds) issued by banks in the amount of PLN 114,137 thousand are covered by Government guarantees (31 December 2011: PLN 221,486 thousand)

Financial liabilities held-for-trading

	31.12.2013 PLN'000	31.12.2012 PLN'000
Short positions in financial assets	481,601	1,027,729
Derivative financial instruments	3,715,295	4,818,675
Financial liabilities held-for-trading	4,196,896	5,846,404

As of 31 December 2013 and 31 December 2012, the Group did not hold any financial assets and liabilities designated for measurement at fair value through profit or loss at initial recognition.

As of 31 December 2013, financial assets from derivatives transactions are reduced by the valuation adjustments due to individual counterparty credit risk for outstanding transactions of PLN 10,065 thousand (31 December 2012: PLN 20,883 thousand).

Derivative financial instruments as of 31 December 2013

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	29,279,105	48,074,990	128,382,483	19,708,033	225,444,611	3,245,616	3,204,747
FRA	14,600,000	16,330,000	2,000,000	-	32,930,000	7,861	9,444
Interest rate swaps (IRS)	11,634,619	28,198,925	111,416,255	15,824,033	167,073,832	2,909,725	2,938,509
Currency-interest rate swaps (CIRS)	2,468,750	3,546,065	14,092,176	3,884,000	23,990,991	320,374	250,758
Interest rate options	82,944	-	874,052	-	956,996	5,540	5,833
Futures*	492,792	-	-	-	492,792	2,116	203
Currency instruments	16,993,509	6,265,122	5,075,209	6,766	28,340,606	270,896	495,592
FX forward	3,383,131	1,341,091	566,104	6,766	5,297,092	24,306	93,644
FX swap	12,006,180	1,947,128	4,130,204	-	18,083,512	171,150	326,782
Foreign exchange options	1,604,198	2,976,903	378,901	-	4,960,002	75,440	75,166
Securities transactions	361,102	-	-	-	361,102	1,113	1,520
Futures*	4,848	-	-	-	4,848	-	-
Securities purchased / sold pending delivery	356,254	-	-	-	356,254	1,113	1,520
Commodity transactions	496,422	479,356	-	-	975,778	13,501	13,436
Swaps	1,092	-	-	-	1,092	9	9
Options	495,330	479,356	-	-	974,686	13,492	13,427
Total derivative instruments	47,130,138	54,819,468	133,457,692	19,714,799	255,122,097	3,531,126	3,715,295

**Exchange-traded products*

Derivative financial instruments as of 31 December 2012

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	56,899,328	41,752,639	85,359,810	15,840,643	199,852,420	3,861,326	4,017,773
FRA	35,182,000	11,600,000	700,000	-	47,482,000	35,035	43,314
Interest rate swaps (IRS)	19,433,985	23,861,328	71,728,964	13,046,709	128,070,986	3,501,690	3,663,075
Currency-interest rate swaps (CIRS)	2,048,100	3,867,235	11,692,472	2,793,934	20,401,741	317,194	302,866
Interest rate options	-	1,500,000	1,238,374	-	2,738,374	7,368	7,368
Futures*	235,243	924,076	-	-	1,159,319	39	1,150
Currency instruments	16,511,520	15,676,671	7,413,650	12,770	39,614,611	444,548	799,505
FX forward	1,892,427	1,009,204	784,787	12,770	3,699,188	42,197	83,475
FX swap	13,343,734	12,579,489	3,857,620	-	29,780,843	309,610	623,139
Foreign exchange options	1,275,359	2,087,978	2,771,243	-	6,134,580	92,741	92,891
Securities transactions	284,209	-	-	-	284,209	158	1,001
Securities purchased / sold pending delivery	284,209	-	-	-	284,209	158	1,001
Commodity transactions	1,960,413	-	-	-	1,960,413	396	396
Options	1,960,413	-	-	-	1,960,413	396	396
Total derivative instruments	75,655,470	57,429,310	92,773,460	15,853,413	241,711,653	4,306,428	4,818,675

**Exchange-traded products*

22. Debt securities available-for-sale

	31.12.2013 PLN'000	31.12.2012 PLN'000
Bonds and Notes issued by:		
Central bank	9,748,646	7,997,178
Other banks*	1,288,739	2,459,016
Government, including:	6,578,656	4,546,809
covered bonds in fair value hedge accounting	1,836,219	-
Debt securities available-for-sale, total	17,616,041	15,003,003
Including:		
Listed instruments	6,177,716	6,315,963
Unlisted instruments	11,438,325	8,687,040

The movement in debt securities available-for-sale is as follows:

	2013 PLN'000	2012 PLN'000
As of 1 January	15,003,003	17,625,355
Increases (due to):		
Purchases	413,942,712	274,302,175
Revaluation	-	419,756
Depreciation of discount, premium and interest	251,687	275,282
Decreases (due to):		
Sale	(411,162,974)	(277,321,076)
Revaluation	(344,902)	-
Foreign exchange differences	(14,457)	(180,939)
Amortization of discount, premium and interest	(59,028)	(117,550)
As of 31 December	17,616,041	15,003,003

*As of 31 December 2013, some of the securities (bonds) issued by other banks in the amount of PLN 895,910 thousand are covered by Government guarantees (31 December 2012: PLN 1,425,266 thousand)

23. Equity investments valued at equity method

	31.12.2013 PLN'000	31.12.2012 PLN'000
Shares in subsidiaries	7,814	15,110
Including:		
Unlisted instruments	7,814	15,110

The movement in equity investments valued at equity method is as follows:

	2013 PLN'000	2012 PLN'000
As of 1 January	15,110	57,945
Decreases (due to):		
Revaluation	(1,764)	(663)
Sale*	(5,532)	-
Liquidation**	-	(42,172)
As of 31 December	7,814	15,110

*On 26 July 2013, shares in Handlowy Investmens II S.a.r.l., representing 100% of the share in the capital and 100% of votes at the General Meeting of Shareholders, were sold. The balance value of sold shares amounted PLN 5,532 thousand.

**On 11 October 2012, Bank Rozwoju Cukrownictwa S.A. w likwidacji shares, representing 100% of the share in the capital and 100% of votes at the General Meeting of Shareholders, were removed from the Group's consolidated statement of financial position. The exclusion was a result of the company's deletion from National Court Register following its completed bankruptcy proceedings. Proceeds from the liquidation in the amount of PLN 42.4 million, which was equal to the valuation of the shares in the Group's consolidated statement of financial position, were transferred in June 2012.

24. Equity investments available-for-sale

	31.12.2013 PLN'000	31.12.2012 PLN'000
Stocks and shares in other entities*	35,910	46,588
Impairment	(20,630)	(26,667)
Other equity investments available-for-sale, total	15,280	19,921
Including:		
Listed instruments	1,163	1,088
Unlisted instruments	14,117	18,833

The movement in equity investments available-for-sale is as follows:

	2013 PLN'000	2012 PLN'000
As of 1 January	19,921	24,912
Increases (due to):		
Revaluation	74	-
Decreases (due to):		
Revaluation	-	(4,991)
Sale*	(4,715)	-
As of 31 December	15,280	19,921

*On 4 January 2013, shares in Elektromontaż Poznań S.A., representing 19.88% of the share in the capital and 19.88% of votes at the General Meeting of Shareholders, were sold. The balance value of sold shares amounted PLN 4,715 thousand.

25. Amounts due from customers

Amounts due from customers (by category)

	31.12.2013 PLN'000	31.12.2012 PLN'000
Amounts due from financial sector entities		
Loans and advances	487,673	498,049
Purchased receivables	2	2
Receivables subject to securities sale and repurchase agreements	100,789	336,588
Guarantee funds and deposits pledged as collateral	136,349	110,297
Other receivables	9,781	7,449
Total gross amount	734,594	952,385
Impairment write-offs	(19,128)	(19,113)
Total net amount	715,466	933,272
Amounts due from non-financial sector entities		
Loans and advances	12,921,969	13,562,249
Unlisted debt securities	718,003	1,013,486
Purchased receivables	1,416,240	1,207,908
Effected guarantees	2,173	2,342
Other receivables*	422,381	613,969
Total gross amount	15,480,766	16,399,954
Impairment write-offs	(964,905)	(1,111,814)
Total net amount	14,515,861	15,288,140
Total net amounts due from customers	15,231,327	16,221,412

*"Other receivables" includes leasing receivables in the amount of PLN 419,024 thousand (31 December 2012: PLN 606,551 thousand).

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

	2013 PLN'000	2012 PLN'000
Portfolio impairment loss	(522,779)	(611,488)
Individual impairment loss	(374,159)	(400,831)
Incurred but not reported losses (IBNR)	(87,095)	(118,608)
Impairment loss, total	(984,033)	(1,130,927)

The movement in amounts due from customers is as follows:

PLN'000	2013			2012		
	Corporate customers	Retail customers	Total	Corporate customers	Retail customers	Total
As of 1 January	(470,133)	(660,794)	(1,130,927)	(484,880)	(750,909)	(1,235,789)
Increases (due to):						
Creation of write-offs	(103,926)	(136,091)	(240,017)	(109,698)	(185,962)	(295,660)
Creation of write-offs in the period for receivables in respect of matured derivative instrument transactions	(4,814)	-	(4,814)	(759)	-	(759)
Other	(1,044)	-	(1,044)	(2,614)	-	(2,614)
Decreases (due to):						
Restating receivables into write-offs	35,544	90,053	125,597	27,344	129,760	157,104
Write-offs release	93,944	167,916	261,860	95,707	146,366	242,073
Sale of receivables	2,273	2,748	5,021	-	-	-
Other	(69)	360	291	4,767	(49)	4,718
As of 31 December	(448,225)	(535,808)	(984,033)	(470,133)	(660,794)	(1,130,927)

Finance lease receivables

The Group operates on the leasing market through its subsidiary Handlowy-Leasing sp. z o.o. The Group provides finance leases of vehicles, machines and equipment.

Included in "Amounts due from customers" are the following amounts relating to finance lease receivables from non-financial sector entities:

	31.12.2013 PLN'000	31.12.2012 PLN'000
Gross finance lease receivables	438,805	642,501
Unrealized financial income	(19,781)	(35,950)
Net finance lease receivables	419,024	606,551

Gross finance lease receivables as follows (by time to maturity):

	31.12.2013 PLN'000	31.12.2012 PLN'000
Less than 1 year	247,239	274,720
Between 1 and 5 years	189,212	364,304
More than 5 years	2,354	3,477
	438,805	642,501

Net finance lease receivables as follows (by time to maturity):

	31.12.2013 PLN'000	31.12.2012 PLN'000
Less than 1 year	235,161	255,044
Between 1 and 5 years	181,509	348,134
More than 5 years	2,354	3,373
	419,024	606,551

As of 31 December 2013, impairment of finance lease receivables amounted to PLN 62,062 thousand (as of 31 December 2012: PLN 63,800 thousand).

Finance lease income is presented in interest income.

26. Tangible fixed assets

Movements of tangible fixed assets in 2013

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As of 1 January 2013	657,163	317	53,696	354,735	3,265	1,069,176
Increases:						
Purchases	568	-	-	7,830	19,888	28,286
Other increases	-	-	-	353	-	353
Decreases:						
Disposals	-	(121)	(5,196)	(4,882)	-	(10,199)
Liquidation	(16,997)	-	-	(43,560)	-	(60,557)
Other decreases	-	-	-	(293)	-	(293)
Transfers	5,039	(27)	17	6,257	(18,826)	(7,540)
As of 31 December 2013	645,773	169	48,517	320,440	4,327	1,019,226
Depreciation and amortization						
As of 1 January 2013	314,604	288	23,808	320,560	-	659,260
Increases:						
Depreciation change for the period	16,939	16	6,046	16,421	-	39,422
Other increases	-	-	-	313	-	313
Decreases:						
Disposals	-	(118)	(732)	(4,824)	-	(5,674)
Liquidation	(15,415)	-	-	(42,990)	-	(58,405)
Other decreases	-	-	-	(288)	-	(288)
Transfers	-	(30)	17	30	-	17
As of 31 December 2013	316,128	156	29,139	289,222	-	634,645
Carrying amount						
As of 1 January 2013	342,559	29	29,888	34,175	3,265	409,916
As of 31 December 2013	329,645	13	19,378	31,218	4,327	384,581

Movements of tangible fixed assets in 2012

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As of 1 January 2012	681,714	331	59,515	422,464	14,404	1,178,428
Increases:						
Purchases	164	8	-	8,017	23,954	32,143
Other increases	-	-	-	6,402	-	6,402
Decreases:						
Disposals	-	(14)	(5,819)	(192)	-	(6,025)
Liquidation	(24,807)	(8)	-	(81,298)	-	(106,113)
Reclassified as tangible fixed assets held-for-sale	(6,753)	-	-	(254)	-	(7,007)
Other decreases	-	-	-	(3,362)	(25,290)	(28,652)
Transfers	6,845	-	-	2,958	(9,803)	-
As of 31 December 2012	657,163	317	53,696	354,735	3,265	1,069,176
Depreciation and amortization						
As of 1 January 2012	322,577	294	16,938	380,690	-	720,499
Increases:						
Depreciation charge for the period	19,035	16	9,154	17,852	-	46,057
Other increases	-	-	-	6,401	-	6,401
Decreases:						
Disposals	-	(14)	(2,284)	(192)	-	(2,490)
Liquidation	(23,891)	(8)	-	(80,605)	-	(104,504)
Reclassified as tangible fixed assets held-for-sale	(3,117)	-	-	(224)	-	(3,341)
Other decreases	-	-	-	(3,362)	-	(3,362)
As of 31 December 2012	314,604	288	23,808	320,560	-	659,260
Carrying amount						
As of 1 January 2012	359,137	37	42,577	41,774	14,404	457,929
As of 31 December 2012	342,559	29	29,888	34,175	3,265	409,916

27. Intangible assets

Movements of intangible assets in 2013

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As of 1 January 2013	1,245,976	2,122	289,338	18,860	108,263	1,664,559
Increases:						
Purchases	-	127	3,219	2	59,832	63,180
Decreases:						
Liquidation	-	-	(52,043)	-	-	(52,043)
Transfers	-	-	161,032	(17)	(162,068)	(1,053)
As of 31 December 2013	1,245,976	2,249	401,546	18,845	6,027	1,674,643
Depreciation and amortization						
As of 1 January 2013	-	1,947	263,845	18,836	-	284,628
Increases:						
Depreciation charge for the period	-	174	23,031	8	-	23,213
Other increases	-	-	1,250	-	-	1,250
Decreases:						
Liquidation	-	-	(51,793)	-	-	(51,793)
Transfers	-	-	(1)	(17)	-	(18)
As of 31 December 2013	-	2,121	236,332	18,827	-	257,280
Carrying amount						
As of 1 January 2013	1,245,976	175	25,493	24	108,263	1,379,931
As of 31 December 2013	1,245,976	128	165,214	18	6,027	1,417,363

Movements of intangible assets in 2012

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As of 1 January 2012	1,245,976	2,154	285,966	18,860	14,149	1,567,105
Increases:						
Purchases	-	-	994	-	86,165	87,159
Decreases:						
Liquidation	-	(32)	(10,323)	-	-	(10,355)
Transfers	-	-	12,701	-	7,949	20,650
As of 31 December 2012	1,245,976	2,122	289,338	18,860	108,263	1,664,559
Depreciation and amortization						
As of 1 January 2012	-	1,810	254,392	18,836	-	275,038
Increases:						
Depreciation charge for the period	-	168	18,458	-	-	18,626
Decreases:						
Liquidation	-	(31)	(9,005)	-	-	(9,036)
As of 31 December 2012	-	1,947	263,845	18,836	-	284,628
Carrying amount						
As of 1 January 2012	1,245,976	344	31,574	24	14,149	1,292,067
As of 31 December 2012	1,245,976	175	25,493	24	108,263	1,379,931

As of 31 December 2013, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as of 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as of 1 March 2005.

28. Impairment test for goodwill

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash generating-units: Corporate Bank and Consumer Bank. For both sectors the value in use exceeds the carrying value, therefore no goodwill impairment was recognized.

The allocation of goodwill to cash-generating units is presented in the table below.

Book value of goodwill allocated to unit

	PLN'000
Corporate Bank	851,944
Consumer Bank	394,032
	1,245,976

The basis of valuation of the recoverable amount for a unit is the value in use, assessed on the basis of the financial plan. The plan is based on rational assumptions about future facts that reflect management assessment of future economic conditions and expected results of the Bank. The plan is periodically updated and approved by the Bank's Supervisory Board.

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model (CAPM) using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves. In 2013, the discount rate amounted to 9.75% (in 2012: 9.5%).

Extrapolation of cash flows which exceed the period covered by the financial plan has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as of 31 December 2013.

The applied growth rates do not exceed the long-term average growth rates appropriate to the corporate and retail banking sector in Poland.

The Bank's Management Board believes that reasonable and probable changes in the key assumptions adopted in the valuation of the recoverable amounts for cash-generating units would not cause their book value to exceed their recoverable amount.

29. Deferred income tax asset and liabilities

	31.12.2013 PLN'000	31.12.2012 PLN'000
Deferred income tax asset	830,120	1,010,549
Deferred income tax provision	(626,988)	(791,763)
Deferred income tax net asset	203,132	218,786

Deferred income tax asset and provision are presented in the statement of financial position after compensation.

Positive and negative taxable and deductible temporary differences are presented below:

Deferred tax asset is attributable to the following:

	31.12.2013 PLN'000	31.12.2012 PLN'000
Interest accrued and other expense	25,615	26,523
Revaluation impairment write-offs	86,678	126,434
Unrealized premium from securities available-for-sale	3,445	1,193
Derivative financial instruments negative valuation	583,798	727,952
Negative valuation of securities held-for-trading	2,514	1,596
Income collected in advance	11,213	11,950
Valuation of shares	4,662	5,809
Commissions	9,599	9,877
Debt securities available-for-sale	10,078	-
Staff expenses and other costs due to pay	75,132	60,698
Differences between balance-sheet and tax value of leases	790	-
Other	16,596	38,517
Deferred tax asset	830,120	1,010,549

Deferred tax provision is attributable to the following:

	31.12.2013 PLN'000	31.12.2012 PLN'000
Interest accrued (income)	20,893	28,648
Unrealized premium from options	-	8
Derivative financial instruments positive valuation	561,273	674,830
Unrealized securities available-for-sale discount	1,332	885
Income to receive	6,085	4,689
Positive valuation of securities held-for-trading	1,370	3,951
Debt securities available-for-sale	5,030	60,470
Investment relief	15,853	16,501
Valuations of shares	1858	1,841
Other	13,294	(60)
Deferred tax provision	626,988	791,763
Net deferred income tax asset	203,132	218,786

Movement in temporary differences during the year 2013

The movement in temporary differences relating to deferred tax asset:

PLN'000	As of 1 January 2013	Adjustments recognized in income	Adjustments recognized in equity	As of 31 December 2013
Interest accrued and other expense	26,523	(908)	-	25,615
Revaluation impairment write-offs	126,434	(39,756)	-	86,678
Unrealized premium from securities available-for-sale	1,193	2,252	-	3,445
Derivative financial instruments negative valuation	727,952	(144,154)	-	583,798
Negative valuation of securities held-for-trading	1,596	918	-	2,514
Income collected in advance	11,950	(737)	-	11,213
Valuation of shares	5,809	(1,147)	-	4,662
Commissions	9,877	(278)	-	9,599
Debt securities available-for-sale	,-	-	10,078	10,078
Staff expenses and other costs due to pay	60,698	14,434	-	75,132
Differences between balance-sheet and tax value of leases	-	790	-	790
Other	38,517	(21,921)	-	16,596
	1,010,549	(190,507)	10,078	830,120

The movement in temporary differences relating to deferred tax provision:

PLN'000	As of 1 January 2013	Adjustments recognized in income	Adjustments recognized in equity	As of 31 December 2013
Interest accrued (income)	28,648	(7,755)	-	20,893
Unrealized premium from options	8	(8)	-	-
Derivative financial instruments positive valuation	674,830	(113,557)	-	561,273
Unrealized securities available-for-sale discount	885	447	-	1,332
Income to receive	4,689	1,396	-	6,085
Positive valuation of securities held-for-trading	3,951	(2,581)	-	1,370
Debt and equity securities available-for-sale	60,470	5,030	(60,470)	5,030
Investment relief	16,501	(648)	-	15,853
Valuations of shares	1,841	17	-	1,858
Other	(60)	13,354	-	13,294
	791,763	(104,305)	(60,470)	626,988
Change in net deferred income tax assets	218,786	(86,202)	70,548	203,132

Movement in temporary differences during the year 2012

The movement in temporary differences relating to deferred tax asset:

PLN'000	As of 1 January 2012	Adjustments recognized in income	Adjustments recognized in equity	As of 31 December 2012
Interest accrued and other expense	20,352	6,171	-	26,523
Revaluation impairment write-offs	152,251	(25,817)	-	126,434
Unrealized premium from securities available-for-sale	1,170	23	-	1,193
Derivative financial instruments negative valuation	626,294	101,658	-	727,952
Negative valuation of securities held-for-trading	920	676	-	1,596
Income collected in advance	14,685	(2,735)	-	11,950
Valuation of shares	48	5,761	-	5,809
Commissions	8,447	1,430	-	9,877
Debt and capital securities available-for-sale	19,303	-	(19,303)	,-
Staff expenses and other costs due to pay	50,772	9,926	-	60,698
Other	27,747	10,770	-	38,517
	921,989	107,863	(19,303)	1,010,549

The movement in temporary differences relating to deferred tax liability:

PLN'000	As of 1 January 2012	Adjustments recognized in income	Adjustments recognized in equity	As of 31 December 2012
Interest accrued (income)	30,174	(1,526)	-	28,648
Unrealized premium from options	96	(88)	-	8
Derivative financial instruments positive valuation	517,162	157,668	-	674,830
Unrealized securities available-for-sale discount	513	372	-	885
Income to receive	4,069	620	-	4,689
Positive valuation of securities held-for-trading	1,036	2,915	-	3,951
Debt and capital securities available-for-sale	-	-	60,470	60,470
Investment relief	17,166	(665)	-	16,501
Valuations of shares	276	1,565	-	1,841
Differences between balance-sheet and tax value of leases	5,490	(5,490)	-	-
Other	10,686	(10,746)	-	(60)
	586,668	144,625	60,470	791,763
Change in net deferred income tax assets	335,321	(36,762)	(79,773)	218,786

As of 31 December 2012 the net impact on deferred tax due to not included negative temporary differences in Handlowy Leasing Sp. z o.o. amounted PLN 19,898 thousands.

30. Other assets

	31.12.2013 PLN'000	31.12.2012 PLN'000
Interbank settlements	1,982	692
Settlements related to brokerage activity	194,805	346,822
Income to receive	50,821	45,027
Staff loans out of the Social Fund	21,223	22,971
Sundry debtors	77,772	138,343
Prepayments	12,436	13,881
Other assets, total	359,039	567,736
Including financial assets*	295,782	508,828

*Financial assets include all the positions "Other assets", except the positions "Income to receive" and "Prepayments".

31. Non-current assets held-for-sale

As of 31 December 2013, non-current assets held-for-sale include the Group's own property with the total value of PLN 12,738 thousand (31 December 2012: PLN 12,554 thousand).

The movement in non-current assets held-for-sale is as follows:

	2013 PLN'000	2012 PLN'000
As of 1 January	12,554	25,662
Increases:		
Acquisition of properties for debts	184	-
Reclassified from bank properties		3,666
Decreases:		
Revaluation	-	(1,014)
Disposal	-	(15,760)
As of 31 December	12,738	12,554

Classifying a non-current asset as held for sale, the Group anticipated distribution to be completed within one year from the date of classification. In case the sale has not occurred within one year, the Group remains committed to its plan to sell the asset and implements it actively and the delay is caused by events or circumstances beyond the Group's control.

32. Amounts due to banks

Amounts due to banks (by category

	31.12.2013 PLN'000	31.12.2012 PLN'000
Current accounts	861,508	939,163
Term deposits	3,356,503	538,722
Loans and advances received	374,898	324,954
Liabilities due to sold securities under repurchase agreements	1,783,602	553,463
Other liabilities	1,925	127
Total amounts due to banks	6,378,436	2,356,429

33. Hedging derivatives

Liabilities – Negative valuation

	2013 PLN'000	2012 PLN'000
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	24,710	-

Hedging derivates as of 31 December 2013

PLN'000	Nominal amount with remaining life of				Total
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	
Interest rate instruments					
Interest rate swaps (IRS)	-	-	1,670,500	100,000	1,770,500

34. Amounts due to customers

Amounts due to customers (by category)

	31.12.2013 PLN'000	31.12.2012 PLN'000
Deposits from financial sector entities		
Current accounts	320,634	445,054
Term deposits	2,939,233	2,349,736
	3,259,867	2,794,790
Deposits from non-financial sector entities		
Current accounts, including:	16,983,122	13,839,360
corporate customers	7,703,769	6,994,179
individual customers	5,931,907	4,836,482
public sector units	3,347,446	2,008,699
Term deposits, including:	5,841,724	6,995,570
corporate customers	4,649,633	5,112,645
individual customers	975,276	1,059,611
public sector units	216,815	823,314
	22,824,846	20,834,930
Total deposits	26,084,713	23,629,720
Other liabilities		
Securities sold under repurchase agreements	352,153	3,061,956
Other liabilities, including:	131,899	160,489
liabilities due to deposits	101,646	74,726
Total other liabilities	484,052	3,222,445
Total amounts due to customers	26,568,765	26,852,165

35. Liabilities due to debt securities issuance

As of 31 December 2013 and as of 31 December 2012, the Group had no liabilities due to debt securities issuance. In the previous years, within the Emisja Bankowych Papierów Wartościowych (Bank Debt Securities Issue) Program, the Bank effected the issue of certificates of deposit ("BPW"), the buyout of which ended in 2012.

The movement in liabilities due to certificates of deposit issuance (at par value):

	2013 PLN'000	2012 PLN'000
As of 1 January	-	25,325
Increases - issue		
issue	-	-
Decreases - buyout		
buyout	-	24,860
early buyout	-	465
As of 31 December	-	-

Provided that BPW are held until maturity, at redemption the issuer was obliged to pay the principal, guaranteed interest and premium interest.

36. Provisions

	31.12.2013 PLN'000	31.12.2012 PLN'000
Litigation	15,313	11,145
Granted financial and guarantee liabilities	13,150	11,476
Workforce restructuring	53,787	-
Restructuring of the branch network	7,034	3,741
Other	-	2,294
Provisions, total	89,284	28,656

The movement in provisions is as follows:

	2013 PLN'000	2012 PLN'000
As of 1 January	28,656	34,914
Provisions for:		
Litigation	11,145	23,440
Granted financial and guarantee commitments	11,476	11,474
Workforce restructuring	-	-
Restructuring of branches	3,741	-
Other	2,294	-
Increases:		
Charges to provisions in the period:	108,229	74,272
litigation	9,646	7,002
granted financial and guarantee commitments	32,528	22,768
workforce restructuring	57,720	32,400
restructuring of the branch network	7,193	9,808
other	1,142	2,294
Other increases in provisions, including:	12	-
For litigation	12	-
Decreases:		
Release of provisions in the period	(32,888)	(29,248)
litigation	(424)	(6,482)
granted financial and guarantee commitments	(30,854)	(22,766)
restructuring of the branch network	(512)	-
other	(1,098)	-
Provisions used in the period, including:	(14,725)	(51,274)
litigation	(5,066)	(12,807)
workforce restructuring	(3,933)	(32,400)
restructuring of the branch network	(3,388)	(6,067)
other	(2,338)	-
Other decreases in the period, including:	-	(8)
litigation	-	(8)
As of 31 December	89,284	28,656

37. Other liabilities

	31.12.2013 PLN'000	31.12.2012 PLN'000
Staff benefits	52,603	53,988
Interbank settlements	89,729	134,372
Interbranch settlements	3,535	684
Settlements related to brokerage activity	189,762	328,439
Settlements with Tax Office and National Insurance (ZUS)	22,912	25,833
Sundry creditors	111,945	92,961
Accruals:	343,541	322,287
Provision for employee payments	126,704	101,189
Provision for employee retirement	31,465	29,770
Provision for employee jubilee payments	3,533	7,143
IT services and bank operations support	91,149	93,878
Consultancy services and business support	43,051	38,624
Other	47,639	51,683
Deferred income	18,923	19,787
Other liabilities, total	832,950	978,351
Including financial liabilities*	791,115	948,574

*Financial liabilities include all the positions "Other liabilities", except the positions "Settlements with Tax Office and National Insurance (ZUS)" and "Deferred income".

38. Financial assets and liabilities by contractual maturity

As of 31 December 2013

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	20	3,541,100	2,857,832	334,617	10,491	338,160	-
Financial assets held-for-trading							
Debt securities held-for-trading	21	2,215,673	30,379	-	342,976	1,224,881	617,437
Financial assets available-for-sale							
Debt securities available-for-sale	22	17,616,041	9,748,646	-	189,730	6,004,765	1,672,900
Amounts due from customers (gross)							
Amounts due from financial sector entities	25	734,594	194,940	70,000	469,654	-	-
Amounts due from non-financial sector entities	25	15,480,766	8,080,050	908,698	1,279,995	4,158,861	1,053,162
Amounts due to banks	32	6,378,436	3,880,747	622,080	1,706,623	168,958	28
Amounts due to customers							
Amounts due to financial sector entities	34	3,612,020	3,590,261	10,448	10,677	622	12
Amounts due to non-financial sector entities	34	22,956,745	22,240,800	366,247	339,559	10,076	63

As of 31 December 2012

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	20	1,462,027	1,120,709	2,228	410	338,680	-
Financial assets held-for-trading							
Debt securities held-for-trading	21	2,532,055	29,435	2,982	178,065	1,518,156	803,417
Financial assets available-for-sale							
Debt securities available-for-sale	22	15,003,003	7,997,178	-	-	2,240,783	4,765,042
Amounts due from customers (gross)							
Amounts due from financial sector entities	25	952,385	428,798	-	72,205	451,382	-
Amounts due from non-financial sector entities	25	16,399,954	8,608,178	731,957	2,110,440	3,884,092	1,065,287
Amounts due to banks	32	2,356,429	2,002,870	-	288,776	64,759	24
Amounts due to customers							
Amounts due to financial sector entities	34	5,856,749	5,674,435	5,534	160,762	16,006	12
Amounts due to non-financial sector entities	34	20,995,416	20,172,842	444,585	375,566	2,342	81

39. Capital and reserves

Share capital

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series / issue (PLN'000)	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	-	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	-	37,659,600	150,638	transfer of CPSA assets to the Bank	28.02.01	01.01.00
				130,659,600	522,638			

Par value of 1 share amounts PLN 4.00

As of 31 December 2013, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2012.

The Bank has not issued preferred shares.

Both in 2013 and 2012 there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as of 31 December 2013 and 31 December 2012, held at least 5% of the total number of votes at the General Meeting or at least 5% of Bank's share capital:

	Value of shares (PLN'000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	130,659,600	100.0	130,659,600	100.0

During 2013 and during the period from the publication of the previous interim quarterly report for Q3 2013 until the day of the publication of this annual report for 2013, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As of 31 December 2013, supplementary capital was PLN 2,997,759 thousand (31 December 2012: PLN 3,011,380 thousand). Supplementary capital is designated for offsetting financial position losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank decides upon the utilization of supplementary capital, but a portion of its balance amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

The supplementary capital amount is PLN 2,485,534 thousand constituting the excess of the fair value of the issued shares over their nominal value in connection with the business combination of the Bank and Citibank (Poland) S.A., which took place on 28 February 2001.

In 2013 the Group's supplementary capital decreased by PLN 13,621 thousand, resulting among other things from using the capital to cover losses recorded at the end of 2012 by the subsidiary Handlowy-Leasing Sp. z o.o. in amount PLN 15,165 thousand (see Note 1).

Revaluation reserve

	2013 PLN'000	2012 PLN'000
Revaluation of financial assets available-for-sale	(42,963)	257,791

The revaluation reserve is not distributed. As of the day of derecognition of all or part of financial assets available-for-sale from the statement of financial position, retained earnings that were previously presented in the other comprehensive and accumulated income in "Revaluation reserve" are reclassified to the income statement.

Other reserves

	2013 PLN'000	2012 PLN'000
Reserve capital	2,335,307	2,126,900
General risk reserve	521,000	507,500
Foreign currency translation adjustment	3,081	2,666
Other reserves, total	2,859,388	2,637,066

On 20 June 2013 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2012, deciding to appropriate the amount of PLN 238,679 thousand for reserve capital and the amount of PLN 13,500 thousand for general risk reserve.

Reserve capital

Reserve capital is created from the annual distribution of profits or from other sources, independently of the supplementary capital.

Reserve capital is designated for offsetting financial position losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank makes decisions on utilization of reserve capital.

General risk reserve

The general risk reserve is recorded out of net profit against unidentified risk arising from banking activities. The General Shareholders' Meeting of the Bank makes decisions on utilization of the general risk reserve subject to applicable regulations.

Dividends

Dividends paid for 2012

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2012 on 20 June 2013. The Meeting resolved to appropriate the amount of PLN 756,519,084.00 for the dividend payment, which means that the dividend per one ordinary share is PLN 5.79. The number of shares covered by the dividend is 130,659,600.

Simultaneously, the WZ resolved to set the day of the right to the dividend for 5 July 2013 (day of dividend) and the day of the dividend payment for 30 August 2013 (day of the dividend payment).

Declared dividends

On 4 March 2014, the Bank's Management Board adopted a resolution on the proposed distribution of profit for 2013. The Bank's Management Board has proposed to allocate the amount of PLN 934,216,140.00 for dividend payment. This means that the dividend per share amounts to PLN 7.15. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 7 July 2014 and the dividend payment date was designated as 29 August 2014. This proposal of the Bank's Management Board will be submitted to the Supervisory Board for opinion and then to the General Shareholders' Meeting for approval.

40. Repurchase and reverse repurchase agreements

Repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

As of 31 December 2013, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Financial assets held-for-trading				
Debt securities	27,099	27,149	Up to 1 week	27,157
Debt securities available-for-sale	2,106,976	2,108,606	Up to 1 week	2,108,752

** including interest*

As of 31 December 2012, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Financial assets held-for-trading				
Debt securities	858,616	857,493	up to 1 month	857,723
Debt securities available-for-sale	2,763,624	2,757,926	up to 1 month	2,758,802

** including interest*

In repo transactions, all gains and losses on the assets held are on the Group's side.

As of 31 December 2013 and as of 31 December 2012, assets sold through repo cannot be further traded.

In 2013, the total interest expense on repurchase agreements was PLN 33,798 thousand (in 2012: PLN 81,971 thousand).

Reverse repurchase agreements

The Group also purchases financial instruments under agreements to resell them at future dates (reverse repurchase agreements). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funding to customers.

As of 31 December 2013, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	1,841,873	1,843,966	up to 1 month	1,842,290
Amounts due from customers:				
from financial sector entities	100,789	100,679	up to 1 month	100,807

** including interest*

As of 31 December 2012, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	765,278	767,302	up to 1 month	765,611
Amounts due from customers:				
from financial sector entities	336,589	336,892	up to 1 month	336,760

** including interest*

As of 31 December 2013 and 31 December 2012, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2013, the total interest income on reverse repurchase agreements was PLN 39,596 thousand (in 2012: PLN 45,341 thousand).

As of 31 December 2013 the liabilities due to short sale of securities purchased in the reverse repo transactions amounted PLN 481,601 thousand (as of 31 December 2012: PLN 1,027,729 thousand).

41. Offsetting of financial assets and financial liabilities

According to information in Note 2, the Group does not offset and does not present financial assets and liabilities in net amounts. Therefore, in line with requirements of IFRS 7, disclosures provided below relate only to financial assets and liabilities resulting from derivative contracts, concluded under the master agreements such as ISDA, Master Agreement recommended by the Polish Banks' Union, Global Master Repurchase Agreement and other master agreements, under which, in certain breaches of the contracts' provisions, the contract may be terminated and settled in net amount of receivables and liabilities.

The table below presents the fair values of derivatives (from trading portfolio and designated as hedging instruments) as well as collateral, which may be offset under the master agreements in certain circumstances.

	Financial assets PLN'000	Financial liabilities PLN'000
Fair value of derivatives	3,296,014	3,581,696
Value of collateral received/placed	(15,100)	(392,185)
Assets and liabilities subject to offsetting under the master agreement	**3,280,914**	**3,189,511**
Maximum amount of potential offset	(3,180,488)	(3,180,488)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**100,426**	**9,023**

42. Hedge accounting

Starting from the 4th quarter of 2013 the Group has applied fair value hedge accounting. The Group hedges against the risk of change in fair value of fixed interest rate debt securities available for sale. The hedged risk results from changes in interest rates.

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

The gain or loss on the hedged item attributable to the hedged risk is recognized in result on hedge accounting in the income statement. The remainder of the change in the fair value valuation of debt securities available for sale is recognized in other comprehensive income. Interest income on debt securities are recognized in net interest income.

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized in result on hedge accounting in the income statement. Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position interest income/expense on derivatives in hedge accounting.

Fair value of instruments within fair value hedge accounting of securities

PLN'000	31.12.2013	
	Nominal value	Fair value
Hedged instruments		
Debt securities available-for-sale		
Treasury bonds	1,770,500	1,836,219
Hedging instruments		
Derivative instruments		
Interest rate swaps - negative valuation	1,770,500	(24,710)

43. Fair value information

Fair value of financial assets and liabilities

Fair value is a price that would be received for selling an asset or would be paid for transferring the liability in a transaction carried out in the usual conditions between the market participants, at the measurement date.

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

As of 31 December 2013

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total balance value	Fair value
Financial assets							
Cash and balances with Central Bank	19	-	778,464	-	-	778,464	778,464
Amounts due from banks	20	-	3,539,927	-	-	3,539,927	3,540,153
Financial assets held-for-trading	21	5,751,829	-	-	-	5,751,829	5,751,829
Debt securities available-for-sale	22	-	-	17,616,041	-	17,616,041	17,616,041
Equity investments valued at equity method	23	-	-	-	7,814	7,814	7,814
Equity investments available-for-sale	24	-	-	15,280	-	15,280	15,280
Amounts due from customers	25	-	15,231,327	-	-	15,231,327	15,235,756
		5,751,829	19,549,718	17,631,321	7,814	42,940,682	42,945,337
Financial liabilities							
Amounts due to banks	32	-	-	-	6,378,436	6,378,436	6,380,167
Financial liabilities held-for-trading	21	4,196,896	-	-	-	4,196,896	4,196,896
Hedging derivatives	33	24,710	-	-	-	24,710	24,710
Amounts due to customers	34	-	-	-	26,568,765	26,568,765	26,568,234
		4,221,606	-	-	32,947201	37,168,807	37,170,007

As of 31 December 2012

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total balance value	Fair value
Financial assets							
Cash and balances with Central Bank	19	-	1,357,308	-	-	1,357,308	1,357,308
Amounts due from banks	20	-	1,461,901	-	-	1,461,901	1,461,901
Financial assets held-for-trading	21	6,838,483	-	-	-	6,838,483	6,838,483
Debt securities available-for-sale	22	-	-	15,003,003	-	15,003,003	15,003,003
Equity investments valued at equity method	23	-	-	-	15,110	15,110	15,110
Equity investments available-for-sale	24	-	-	19,921	-	19,921	19,921
Amounts due from customers	25	-	16,221,412	-	-	16,221,412	16,239,445
		6,838,483	19,040,621	15,022,924	15,110	40,917,138	40,935,171
Financial liabilities							
Amounts due to banks	32	-	-	-	2,356,429	2,356,429	2,356,295
Financial liabilities held-for-trading	21	5,846,404	-	-	-	5,846,404	5,846,404
Amounts due to customers	34	-	-	-	26,852,165	26,852,165	26,848,279
		5,846,404	-	-	29,208,594	35,054,998	35,050,978

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets / liabilities valued directly on the basis of prices from an active market where the regular quotations and turnover are available.

  The active market includes stock and brokerage quotes and quotes in such systems as pricing services, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include securities held-for-trading or available-for-sale.
- Level II: financial assets / liabilities valued on the basis of models based on input data from the active market and presented in Reuters and Bloomberg systems, depending on financial instruments, the following specific valuation techniques are used:
  - listed market prices for a given instrument or listed market prices for an alternative instrument,
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant parameters not market-based (counterparty credit risk).

In 2013, the Group did not make any changes in the classification of financial instruments (presented by the fair value method in the consolidated statement of financial position) to categories of fair value assignment (Level I, Level II, Level III).

The tables below present carrying amounts of financial instruments presented in the consolidated statement of financial position measured at fair value, arranged according to the above categories:

As of 31 December 2013

PLN'000	Note	Level I	Level II	Total
Financial assets				
Financial assets held-for-trading	21	2,108,682	3,643,147	5,751,829
derivatives		2,116	3,529,010	3,531,126
debt securities		2,101,536	114,137	2,215,673
equity instruments		5,030	-	5,030
Debt securities available-for-sale	22	6,578,656	11,037,385	17,616,041
Financial liabilities				
Financial liabilities held-for-trading	21	481,804	3,715,092	4,196,896
short sale of securities		481,601	-	481,601
derivatives		203	3,715,092	3,715,295
Hedging derivatives	33	-	24,710	24,710

In 2013, the Bank transferred financial assets available-for-sale from the category valued using relevant parameters not market-based (Level III) to the category valued using information from an active market (Level II). The change of the category concerns derivatives and results from change of the market-based valuation model. The value of transferred assets was PLN 1,523 thousands.

Additionally, taking into account the market activity, there was made a transfer of the part of debt securities classified to financial assets held-for-trading in amount PLN 246,880 thousands and the part of debt securities available-for-sale in amount PLN 1,216,694 thousand from the category valued directly on the basis of prices quoted in an active market (Level I) to the category valued using information from an active market (Level II).

As of 31 December 2012

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	21	2,507,172	4,329,788	1,523	6,838,483
derivatives		39	4,304,866	1,523	4,306,428
debt securities		2,507,133	24,922	-	2,532,055
Debt securities available-for-sale	22	5,972,075	9,030,928	-	15,003,003
Financial liabilities					
Financial liabilities held-for-trading	21	1,028,879	4,817,525	-	5,846,404
short sale of securities		1,027,729	-	-	1,027,729
derivatives		1,150	4,817,525	-	4,818,675

The movement of financial assets and liabilities valued at fair value using relevant parameters not market-based in 2012 is presented below:

PLN'000	Financial assets held-for-trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held-for-trading
	Derivatives	Debt securities	Equity instruments	Debt securities		Derivatives
As of 1 January 2012	6,911	-	-	1,706,078	1,712,989	-
Total increases and decreases						
in income statement	409	-	-	10,987	11,396	-
in other comprehensive income	-	-	-	181	181	-
Acquisition	-	-	-	1,916,316	1,916,316	-
Settlement / sale	(5,797)	-	-	(2,190,300)	(2,196,097)	-
Other*	-	-	-	(1,443,262)	(1,443,262)	-
As of 31 December 2012	1,523	-	-	-	1,523	-
Total increases and decreases in the period in the income statement for assets/liabilities held at the end of the period	409	-	-	-	409	-
Increases and decreases in the income statement for the period from 1 January 2012 to 31 December 2012 are included in net income on trading financial instruments and revaluation in the following manner:						
Total increases and decreases in the income statement for the period					11,396	-
Total increases and decreases in the income statement in the period for assets/liabilities held at the end of the period					409	-

*In 2012, the Group transferred financial assets available-for-sale from the category valued using relevant parameters not market-based (Level III) to the category valued using information from an active market (Level II). The change of the category concerns commercial debt securities and results from change of their credit risk valuation model at 31 December 2011 which is now market-based. The value of transferred assets available-for-sale was PLN 926,411 thousand. The remaining amount of PLN 516,851 thousand refers to transfer of debt securities purchased during 2012.

Fair value measurement

In the case of short-term financial assets and liabilities, it is assumed that their carrying amount is practically equal to their fair value. In the case of other instruments, the following methods and assumptions have been adopted.

Equity investments

Equity investments recognized under the equity method:
In the case of financial assets which are interests in subsidiaries which are not fully consolidated, the fair value was presented as the percentage of net assets of an entity that is attributable to the Group's interests in a given entity. The Management Board of the parent entity believes that this is the best available approximation of fair value of such instruments.

Other equity investments:
In case of other equity investments for non-controlling interests, fair value is the purchase price adjusted for impairment losses for both unlisted and listed investments due to the contractual time limit of the possibility of their disposal.

According to the Group's strategy, presented equity investments will be gradually reduced except for selected strategic investments in "infrastructure companies" that provide services to the financial sector. Particular entities will be sold at the most suitable time under market conditions.

In 2013, from capital investments, of which the fair value could not be measured, the Bank sold shares in Elektromontaż Poznań S.A., representing 19.88% of the share in the capital and 19.88% of votes at the General Meeting of Shareholders, and in Handlowy Investmens II S.a.r.l., representing 80.97% of the share in the capital and 80.97% of votes at the General Meeting of Shareholders. The balance value of sold shares in Elektromontaż Poznań S.A amounted PLN 4,715 thousand, in Handlowy Investmens II S.a.r.l. - PLN 5,532 thousand.

In 2012, the Group did not sell equity investments whose fair value previously could not be reliably measured.

Amounts due from customers and banks

Carrying amount of loans is presented at amortized cost less impairment. The fair value of loans and advances is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates as well as changes in margins during the financial period. Changes in margins on loans are based on concluded transactions. It is assumed that loans and advances will be paid on the contractual date. Retail cash loans based on a rate managed by the Bank are an exception as their carrying amount is considered the fair value. In the case of loans for which repayment dates are not fixed (e.g., overdrafts), the fair value is the repayment that would be required if the amount were due on the balance sheet date.

For overnight placements, the fair value is equal to their carrying amount. For fixed interest rate placements, the fair value is assessed on the basis of discounted cash flows using current money market interest rates for receivables with similar credit risk, time to maturity, and currency.

Amounts due to banks and customers

In case of on-demand deposits, as well as deposits without a pre-determined maturity date, the fair value is the amount that would be paid out if demanded on the balance date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates taking into account current margins in a similar way as adopted for the valuation of loans.

As described above, the models applied to determine the fair value of assets and liabilities to banks and customers, recognized in the consolidated statement of financial position at amortized cost, use the valuation techniques based on non-market parameters. Therefore, the Group classifies the valuation of financial instruments for the purpose of disclosure to the third level fair value hierarchy. For all other financial instruments not at fair value, the Group believes that the fair value is generally approximates the carrying value.

44. Contingent liabilities and litigation proceedings

Information on pending proceedings

As of 31 December 2013, there was no single proceeding regarding receivables and liabilities of the Bank or a subsidiary of the Bank, the value of which would be equal to at least 10% of equity, pending in court, before a public administration authority or an arbitration authority.

The total value of all pending legal proceedings regarding receivables or liabilities with the participation of the Bank and subsidiaries of the Bank did not exceed 10% of the Bank's equity as of 31 December 2013.

In accordance with applicable regulations, the Group recognizes impairment losses for receivables subject to legal proceedings.

In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Group's commitments, the appropriate provisions are created.

As of 31 December 2013, the Bank was among others a party to 33 court proceedings regarding derivative transactions: in 24 proceedings the Bank acted as a defendant and in 9 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. As of the date of preparation of the financial statements, 7 legally valid court decisions were issued - 5 in favor of the Bank and 2 unfavorable - in litigation related to financial derivative transactions; there was no final court decision in the remaining cases.

The Bank is a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The proceedings concern alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. On 22 April 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. In its decision of 8 May 2012, SOKiK suspended the proceedings until the legally valid closing of proceedings before the Court of Justice of the European Union in a case brought by MasterCard against a decision of the European Commission (ref. no. T 111/08). An appeal was filed against the SOKiK decision of 8 May 2012 with the Appeal Court.
On 25 October 2012, the Appeal Court changed the appealed decision by dismissing the application for suspension of the proceedings. The Appeal Court decided that, in view of the case involving the Bank and considered by SOKiK being different from the proceedings before the Court of Justice of the European Union in the case brought by MasterCard against a decision of the European Commission (ref. no. T 111/08), it is not admissible to conclude that the proceedings before the Court of Justice of the European Union are prejudicial proceedings for the case considered by SOKiK. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set up at the amount of PLN 1,775,720.00. SOKiK dismissed the appeals of the banks in the remaining range, refusing to consider the interchange fee agreements as complying with the law and to include them into the agreements covered with the individual exemptions as in article 11 paragraph 2 in relation to article 7 paragraph 1 of the Act on protection of competition and customers of 15 December 2000, indicating that the banks did not prove there are indications for such an exemption. The judgment is invalid and is likely to be verified of instance due to appealing by the Bank and other parties against the judgment of SOKiK. After the proceeding before the Court of Appeal, the judgment of SOKiK may be maintained, set aside or amended.

In 2013, the Group made a significant payment following the court cases. Under a legally valid decision resolving disputes, the Bank paid the total amount of PLN 12,3 million awarded to three plaintiffs from provisions previously set up against the dispute.

Commitments due to granted and received financial and guarantees liabilities

The amount of financial and guarantees commitments granted and received, by product category, is as follows:

PLN'000	31.12.2013	31.12.2012
Financial and guarantees liabilities granted		
Letters of credit	137,569	149,128
Guarantees granted	1,775,108	1,764,624
Credit lines granted	12,199,651	11,092,470
Underwriting other issuers' securities issues	1,508,050	1,212,550
Other guarantees	38,240	35,186
Reverse repurchase transactions with future currency date	242,521	-
	15,901,139	14,253,958

PLN'000	31.12.2013	31.12.2012
Letters of credit by category		
Import letters of credit issued	135,060	144,855
Export letters of credit confirmed	2,509	4,273
	137,569	149,128

The Group makes provisions for financial and guarantees commitments granted. As of 31 December 2013, the provisions created for financial and guarantees commitments granted amounted to PLN 13,150 thousand (31 December 2012: PLN 11,476 thousand).

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bill of exchange guarantees.

PLN'000	31.12.2013	31.12.2012
Financial and guarantees liabilities received		
Finance	1,247,960	122,646
Guarantees	4,970,167	4,798,611
	6,218,127	4,921,257

45. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2013	31.12.2012
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	1,783,602	553,463
Amounts due to customers		
securities sale and repurchase agreements	352,153	3,061,956
	2,135,755	3,615,419

Details of the carrying amounts of assets pledged as collateral are as follows:

PLN'000	31.12.2013	31.12.2012
Assets pledged		
Debt securities held-for-trading	27,099	858,616
Debt securities available-for-sale	2,277,542	2,897,331
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	394,188	75,062
Amounts due from customers		
Stock market trading guarantee funds and settlements	136,349	110,297
Other assets		
Settlement of transactions in financial instruments	7,751	3,511
	2,842,929	3,944,817

As of 31 December 2013, the debt securities available-for-sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount PLN 170,566 thousand (31 December 2012: PLN 133,707 thousand) and the collateral against securities sold with repurchase agreement in the amount PLN 2,106,976 thousand (31 December 2012: PLN 2,763,624 thousand).

Debt securities held-for-trading constitute security of the Bank's obligations under securities sold with repurchase agreement. For more details on assets covering the Bank's obligations under repo transactions, see Note 40. Other assets disclosed above secure settlement of other transactions including derivatives transactions and stock market transactions. The terms and conditions of the transactions executed to date are standard and typical for such dealings.

46. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As of 31 December 2013, the Bank maintained over 13 thousand securities accounts (31 December 2012: 11.4 thousand accounts).

47. Operating leases

Leases where the Group is the lessee

Non-cancellable operating lease rentals are payable as follows (by time to maturity):

PLN'000	31.12.2013	31.12.2012
Less than 1 year	30,821	35,528
Between 1 and 5 years	60,343	90,680
More than 5 years	-	1,360
	91,164	127,568
Total annual rentals for contracts for an unspecified period of time	3,230	4,768

The Group uses office space under operating lease contracts.

Office space lease contracts are signed for 5 years with the option of extension for another three years; however, some contracts have been signed for a period up to 1 year and some for more than 10 years. Lease payments are subject to annual indexation. The total amount of lease payments in 2013 amounted to PLN 40,625 thousand (in 2012: PLN 49,091 thousand).

These payments are presented in the income statement in "General administrative expenses."

Leases where the Group is the lessor

Non-cancellable operating lease rentals are payable as follows (by time to maturity):

PLN'000	31.12.2013	31.12.2012
Less than 1 year	1,807	1,505
Between 1 and 5 years	3,137	3,921
More than 5 years	-	3
	4,944	5,429
Total annual rentals for contracts for an unspecified period of time	8,226	6,299

The Group leases some office space under lease contracts which fulfill the economic criteria of operating leases.

Most of the office space lease contracts are signed for an unspecified period of time. Other contracts are signed for a period of between 2 and 10 years. Lease payments are subject to annual indexation. The income related to these contracts amounted in 2013 to PLN 7,993 thousands (in 2012: PLN 4,796 thousands).

These payments are presented in the income statement in "Other operating income."

48. Cash flow statement

Additional information:

PLN'000	31.12.2013	31.12.2012
Cash related items:		
Cash in hand	532,142	474,301
Nostro current account in Central Bank	246,322	883,007
Current accounts in other banks (nostro, overdrafts on loro accounts)	341,698	187,014
	1,120,162	1,544,322

49. Related parties

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

In the normal course of business activities, Group entities enter into transactions with related parties, in particular with entities of Citigroup Inc.

The transactions with related parties, resulting from the current Group's activities, mainly include loans, deposits, guarantees and derivatives transactions. Apart from the transactions described in this section, in the presented period neither the Bank nor the Bank's subsidiaries conducted any transactions with related entities, which would be individually or jointly significant. No transaction with related entities was concluded on terms other than market terms.

Transactions with Citigroup Inc. entities

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

PLN'000	31.12.2013	31.12.2012
Receivables, including:	805,086	283,805
Placements	138,509	84,692
Liabilities, including:	4,128,851	1,236,202
Deposits	3,328,060	449,070
Loans received	205,368	259,289
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	2,699,322	3,263,844
Liabilities held-for-trading	2,908,933	3,871,681
Contingent liabilities granted	163,971	153,653
Contingent liabilities received	1,418,444	226,035
Contingent transactions in derivative instruments (commitments granted/received), including:	182,584,553	168,476,833
Interest rate instruments	165,280,456	135,206,525
FRA	19,680,000	25,641,000
Interest rate swaps (IRS)	122,893,780	89,718,864
Currency - interest rate swaps (CIRS)	21,735,386	17,318,155
Interest rate options	478,498	1,369,187
Futures contracts	492,792	1,159,319
Currency instruments	16,744,149	32,155,394
FX forward/spot	1,635,593	943,343
FX swap	12,498,863	27,938,970
Foreign exchange options	2,609,693	3,273,081
Securities transactions	72,059	134,707
Securities purchased pending delivery	56,368	58,309
Securities sold pending delivery	15,691	76,398
Commodity transactions	487,889	980,207
Swaps	546	-
Options	487,343	980,207

PLN'000	2013	2012
Interest and commission income	53,573	37,781
Interest and commission expense	11,880	9,397

The Group incurs costs and receives income on derivative transactions with Citigroup Inc. entities to hedge the Bank's position in market risk. These derivative transactions are opposite (back-to-back) to derivative transactions with other Group clients or close the proprietary position of the Group. The net carrying amount of financial derivative transactions as of 31 December 2013 amounted to PLN (209,611) thousand (as of 31 December 2012: PLN (607,837) thousand).

Furthermore, the Group incurs costs and receives income from agreements concluded between Citigroup Inc. entities and the Group for the mutual provision of services.

The costs arising and accrued (including VAT, reflected in the Group's costs) under concluded agreements in 2013 and 2012 mainly related to the cost of services provided to the Group for the maintenance of the banking IT systems and advisory support and are included in general administrative expenses and other operating expenses; income was mainly related to the provision of data processing services by the Group to such entities and is presented in other operating income.

PLN'000	2013	2012
General administrative expenses	169,354	160,130
Other operating expenses	-	329
Other operating income	11,423	12,047

In 2013 the capitalization of investments started in 2012 and continued investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 47,811 thousand (in 2012: PLN 60,027 thousand) (see Note 27).

50. Transactions with the key management personnel

PLN'000	31.12.2013		31.12.2012	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	584	-	603	-
Deposits				
Current accounts	6,827	28,701	8,460	2,225
Term deposits	3,000	271	3,519	119
	9,827	28,972	11,979	2,344

As of 31 December 2013 and 31 December 2012, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

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

In case of one of members of the Management Board there is an employment contract conducted with the Bank including a provision on the financial compensation in case of its termination upon notice.

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

51. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense;
- benefits after termination of employment – including retirement allowances (see Note 2) and pension plans presented below offered by the Group to its staff.

  A provision is created for future retirement allowances that is shown in the consolidated statement of financial position in "Other liabilities." An independent actuary periodically verifies the provision in accordance with IFRS.
  The Group's pension plan is a defined-premium program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

  ### Description of the Employee Pension Plan

  The Group conducts for its employees the Employee Pension Plan ("PPE", "Plan"), registered by the Supervisory Authority under number RPPE 178/02. Collective agreement is based on records on paying the employees' contributions to the investment fund by the employer. The Plan is conducted by Legg Mason TFI S.A, which manages the Bank's assets.

  The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts 6%.

  The additional contribution – voluntary, is paid by an employee – the Plan participant. The minimum amount of the monthly additional contribution is PLN 10,00 and the maximum amount of the additional contribution is limited to the employee's salary free from deductions within the meaning of Art. 87 of the Labour Code. The basic contribution is the Plan participant's income, from which he is obligated to pay the personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2000. No. 90, item 416 with amendments.).

  Payments from the Plan are as follows:

  - at the request of the Plan participant after he attains the age of 60 years;
  - at the request of the Plan participant after he presents the decision on obtaining the pension rights and attains the age of 55 years;
  - when the Plan participant attains 70 years, if he didn't request for the payment before;
  - at the request of an authorized person (respectively a heir or a beneficiary, indicated by name), in case of death of Plan participant.

  Payment at the request of the Plan participant or an authorized person may be done at once or in specific amounts of monthly payments, as requested in the payment request.

  In case of attaining the age of 70 years, the payment is without the request and at once, provided that this payment will not occur if the Plan participant is still the employee of the employer.

  The Plan participant may quit the Plan. The termination must be done in writing to be valid. After expiration of notice period (one month, counting from the last day of a month, in which the Plan participant resigned), the employer stops charging and paying basic and additional contributions for the Plan participant, and the funds, which were so far collected on the Plan participant's registers, are left there till the time of payment, transfer payment, transfer or refund.

- other long-term employee benefits – jubilee and other long service awards and deferred cash award. Information on jubilee awards paid to employees is presented in Note 2. These are paid under a defined-benefit scheme and their valuation is carried out by an independent actuary in accordance with IAS 19;
- employee equity benefits – in the form of stock options granted on Citigroup common stock under stock award programs based on shares of Citigroup common stock in the form of deferred stock and also in the form of phantom shares of Bank Handlowy w Warszawie S.A. Valuation and presentation principles of these programs are described in Note 2 in "Share-based payments." Detailed information concerning the employee equity benefits are presented in the further part of this Note.

Provisions/accruals for the above employee benefits are as follows:

PLN'000	2013	2012
Provision for remuneration	73,168	72,552
Previsions for unused leave	18,526	15,164
Provision for employees' retirement benefits	31,465	29,770
Provisions for employees' jubilee payments	3,533	7,143
Provision for employees' equity compensation	35,010	13,473
Provision for workforce restructuring	53,787	-
Provisions for other staff expenses	-	2,294
	215,489	140,396

Change in provisions/accruals for employees' retirement allowances and jubilee payments

PLN'000	2013		2012	
	Provision for retirement allowances	Provision for jubilee payments	Provision for retirement allowances	Provision for jubilee payments
As of 1 January	29,770	7,143	26,021	10,189
Increases (due to):	2,826	-	3,923	152
revaluation	91	-	3,923	152
remuneration costs and interests costs	2,735	-	-	-
Decreases (due to):	(1,131)	(3,610)	(174)	(3,198)
provisions utilisation	(1,074)	(3,564)	(174)	(3,077)
reversal of provisions	(57)	(46)	-	(121)
As of 31 December	31,465	3,533	29,770	7,143

In 2013, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 22,392 thousand (in 2012: PLN 22,991 thousand).

Employment in the Group:

FTEs	2013	2012
Average employment in the year	4,833	5,263
Employment at the end of the year	4,665	4,892

In the fourth quarter of 2013, a restructuring process was initiated in connection with the transformation of the retail banking distribution model and further improving the Bank's operational efficiency. A provision of PLN 55,160 thousand was created for the cost of workforce restructuring and was used in amount of PLN 1,893 thousand by 31 December 2013.

The workforce restructuring process covered also Handlowy-Leasing Sp. z o.o. ("HL") as a result of limiting lease activity in the Group of the Bank. A provision of PLN 2,560 thousand was created for the cost of workforce restructuring in HL and was used in amount of PLN 2,040 thousand by 31 December 2013 (see Notes 12, 36).

The rules of creating the restructuring provision are described in Note 2 in "Restructuring provision."

Description and principles of employee stock benefit schemes

Under the employee stock benefit program, awards in the form of Citigroup stock (the so-called Capital Accumulation Program, or CAP) or Citigroup stock options (the so-called Stock Ownership Program, or SOP) and the phantom shares of Bank Handlowy w Warszawie S.A. are offered to selected employees.

Within the framework of the SOP, eligible employees received options to buy stock at the NYSE closing price as of day before the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted in 2009 are transferred partially in 33⅓% every year for the next three years, starting from the first anniversary of option acquisition. Options granted in the previous years 2005-2008, were transferred partially in 25% every year, starting from the first anniversary of option acquisition. Employees lose the right to options at the moment of ceasing employment in Citigroup. Options may be exercised by purchase of stocks in the period from the acquisition date of the right to an option to the expiry date of the option.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as of the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. Employees lose the right to options at the moment of ceasing employment in Citigroup. Deferred shares granted in 2010-2013 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

Employee share program is subject to internal controls in the Compensation and Benefits Unit.

In 2012 Bank Handlowy introduced "Variable Remuneration Components Policy For Managerial Staff At Bank Handlowy w Warszawie S.A." ("Policy"), according to requirements described in the Resolution 258/2011 of Komisja Nadzoru Finansowego (Polish Financial Supervisory Authority) dated 4-th of October 2011. According to the Policy the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and Bank's financial results.

A portion of the Variable Remuneration of persons covered by the Policy will be paid in tranches during in the next 3.5 years.

Variable Remuneration – Phantom shares	
Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	21 of January 2013 20 of January 2014
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	6, 18, 30 and 42 months after grant date
Vesting date	6, 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on Bank's results, individual performance of the employee and employment in the Group in years 2013, 2014 and 2015 in relation to the award from 2013, and in years 2014, 2015 and 2016 in relation to the award from 2014.
Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the vesting date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Another component of the Variable Remuneration granted according to the Policy is Deferred Cash Award.

Variable Remuneration – Deferred Cash Award	
Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	21 of January 2013 20 of January 2014
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	18, 30 and 42 months after grant date
Vesting date	12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on Bank's results, individual performance of the employee and employment in the Group in years 2013, 2014 and 2015 in relation to the award from 2013, and in years 2014, 2015 and 2016 in relation to the award from 2014.
Program settlement	At the settlement date the participants will get an amount of Deferred Cash tranche with an interest calculated for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2013 and in January 2014. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Assumptions of valuation of the employee equity benefit schemes

The fair value of particular awards and the assumptions used in their measurement, except the Stock Purchase Program the amount of which is immaterial for the financial statements, is shown below:

SOP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	22.01.2008	244.5	8	2,096
2	29.10.2009	40.8	191	91,603

Program CAP	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	19.01.2010	35.16	17	12,878
2	18.01.2011	50.20	26	29,732
3	17.01.2012	30.54	21	34,396
4	19.02.2013	43.93	8	5,114

Phantom Shares Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	21.01.2013	96.03	27	104,302

	SOP Program	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	(2) 33.33% after each of the following years (1) 25% after each of the following years	25% after each of the following years	40% after 0.5 of a year and 20% after each of the following years or 60% after 0.5 of a year and 13.33% after each of the following years
Expected average life cycle of the instrument	1 year after the time of rights acquisition	At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	7%	7%	7%
Expected variances	23.39%	-	-
Risk free interest rate (for USD)	0.61%	-	-
Expected dividends (in USD per one share)	0.04	-	-
Fair value of one instrument* (in USD)	0.00 - 10.10 (USD)	50.90 (USD)	110.45 (PLN)

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices (SOP Program):

	31.12.2013		31.12.2012	
	Number	Weighted average strike price [USD]	Number	Weighted average strike price [USD]
At the beginning of the period	116,564	44.65	110,137	70.62
Allocated in the period	-	-	-	-
Transfers	-	-	11,717	-
Redeemed in the period	20,753	48.10	-	-
Expired in the period	2,112	-	5,290	-
At the end of the period	93,699	45.36	116,564	44.65
Exercisable at the end of the period	93,699	45.36	116,564	44.65

The number and the weighted average price of shares (CAP Program) are presented below:

	31.12.2013		31.12.2012	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	124,649	39.49	114,874	52.74
Allocated in the period	5,114	43.93	47,093	30.54
Redeemed/expired in the period	47,643	-	37,318	-
At the end of the period	82,120	39.21	124,649	39.49

The number and the weighted average price of Phantom Shares are presented below:

	31.12.2013		31.12.2012	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	-	-	-	-
Allocated in the period	186,196	96.03	-	-
Executed in the period	81,894	96.08	-	-
Redeemed / expired In the period	-	-	-	-
At the end of the period	104,302	96.03	-	-

52. Subsequent events

After 31 December 2013, there were no major events, not included in the financial statement, that could have a significant influence on the net result of the Group.

53. Risk management

Risk management organization structure and process

The Group's activities involve analysis, assessment, approval and management of a broad range of risks associated with its business. Such risk management process is performed at different units and levels of the organization and covers among others: credit risk (including counterparty credit risk, residual risk of accepted collateral and concentration risk), liquidity risk, market risk, and operational risk.

In the risk management area, the Supervisory Board of Bank resolves upon:

- approving a strategy of the Group's activity and the rules of prudent and stable risk management;
- approving a general level of the Group's risk appetite as part of the internal capital adequacy assessment process (ICAAP) document;
- approving the fundamental organizational structure of the Group, determined by the Bank's Management Board and matched to the size and the profile of incurred risks.

The Management Board of the Bank by way of a resolution:

- approves the organizational structure of the Group, which reflects the size and the profile of the risks taken and defines the roles and responsibilities in the area of risk management, ensuring that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- determines the principles of prudent and stable risk management of the Group;
- sets general risk appetite levels accepted by the Group as part of the internal capital adequacy assessment process (ICAAP) document.

Furthermore, the Management Board of the Bank ensures that processes are put in place to manage significant risks identified in ICAAP.

The Management Board of Bank has nominated an independent Chief Risk Officer (CRO) reporting directly to the President of the Management Board and responsible for the management and control of credit risk, market risk, and operational risk, including:

- introducing a risk management system in the Group as well as risk identification, measurement, control and reporting methods;
- developing the risk management policy and developing risk assessment and control systems;
- making credit decisions in compliance with the principles resulting from the credit procedures as well as documents determining the Group's credit policy;
- ensuring the proper safety level of the credit portfolio;
- managing the problem loans portfolio (including collections and debt restructurings).

Processes of credit, market and operational risk management are implemented in the Group based on written strategies and principles of risk identification, measurement, mitigation, monitoring, reporting and control approved by the Management Board or appropriately appointed Committees, including the Assets and Liabilities Management Committee (ALCO) and the Risk and Capital Management Committee.

The Chief Risk Officer presents the organizational structure of the Risk Management Sector to the Management Board of the Bank, taking into account the specificity of credit, market, liquidity and operational risk management in the respective customer segments. For this purpose, organizational units have been set up within the Risk Management Sector that are responsible for:

- managing credit risk of the Corporate Bank;
- managing credit risk of the Commercial Bank;
- managing credit risk of the Consumer Bank;
- managing impaired receivables;
- managing market risk;
- managing liquidity risk;
- managing operational risk,
- managing model risk,
- supporting risk management in the above areas including in control functions,
- process of comprehensive and continuous assessment of credit risk (Fundamental Credit Risk Assessment).

Independent risk managers are responsible for developing and implementing risk management policies and practices in the respective business units, overseeing risks in the business units, and responding to the needs and issues of the business units.

Risk management in the Group is supported by a range of IT systems in the following areas:

- obligor and exposure credit risk assessment;
- credit, market and operational risk measurement, reporting and monitoring;
- monitoring and reporting of collateral;
- calculation and reporting of impairment write-offs;
- support of implementation of New Capital Accord requirements.

Significant Risks

Credit risk including also counterparty credit risk results from credit exposure or other exposure related to concluding and clearing below listed transactions, and is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. Credit risk arises in many of the Group's business activities, hereinafter "products" including:

- Loans and advances;
- FX and derivatives transactions;
- Securities transactions;
- Financing and handling settlements, including trade (domestic and foreign);
- Transactions in which the Group acts as an intermediary on behalf of its clients or other third parties.

The framework described in the "Credit Risk" section of this document covers different types of exposure, as defined in relevant Credit Policies of the Group.

Additionally, within the risk management system, the Group also applies credit risk mitigation rules (including by accepting collateral, thus mitigating the inherent **residual risk**) and manages **concentration risk**.

Liquidity risk is the risk that the Group may be unable to meet a financial commitment to a customer, creditor, or investor when due. Liquidity risk is measured in accordance with the applicable law, in particular with the Banking Act, under standards set by the regulator (regulatory liquidity measures) and with internal measures which support liquidity risk management.

Market risk is the risk to profits due to changes in interest rates, foreign exchange rates, commodity prices, and their volatilities. Market risk arises in non-trading portfolios, as well as in trading portfolios. Market risk is measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate risk.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events.

Operational Risk includes reputation and franchise risk associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk (defined below).

Operational Risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Credit risk

The main objective of the Group's credit risk management is to ensure a high quality of the credit portfolio and stability of activity by minimizing the risk of incurring credit losses. Credit risk is minimized through the Group's regulations and implemented controls.

Principles of the Credit Risk Management Policy

Independent risk management is responsible for establishing the principles of the Credit Policy for the Corporate Bank and the Credit Policy for the Commercial Bank, as well as approving other policies and procedures, monitoring credit risk management performance, providing ongoing assessment of the credit risk of the portfolio and approving individually significant credit risk limits. The rules for approving risk are matched with the strategy of the Bank, credit portfolio performance and internal control results.

For corporate and commercial clients as well as investment banking activities across the organization, the credit process is based on a range of fundamental policies, including:

- Joint business and independent risk management responsibility for the quality of the credit portfolio and process as well as for credit loss;
- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- A minimum of two authorized credit approvers with delegated credit authority required for all significant exposures;
- Dependence of approval level from the risk taken – exposures with a higher risk (including size and risk assessment) require approval at a higher decision-making level;
- Diverse risk rating standards, adequate to every obligor and exposure, including remedial actions;
- Risk rating of every obligor and exposure in a consistent rating process using risk rating models and scorecards (scoring);
- Periodic monitoring of customers' business results and identification of negative changes in their standing which require immediate reclassification of exposure or remedial actions;
- Exceptions to Credit Policies are approved at higher levels within the organization to ensure control over risk policy implementation by higher level managers.

In the Consumer Bank (GCB), the Management Board of the Group has approved credit policies for each credit product offered.

Credit risk in this area is managed by means of:

- detailed credit policies which define the credit scoring rules;
- a system for allocation of credit authority and independent supervision of the quality of credit analyst performance;
- a system of monitoring the quality of IT tools supporting credit scoring;
- a system of risk measurement and control for credit portfolios including: a detailed management information system covering the quality of the credit portfolio and debt collection, identification of impaired exposures, monitoring of delinquencies, monitoring of benchmarks, etc., internal limits of credit portfolio parameters approved by the Management Board;
- debt collection policy rules approved by the Management Board as well as a fraud prevention policy and a credit and debit card transaction authorization policy;
- credit portfolio quality reports to the GCB Risk Committee, the Risk and Capital Management Committee and the Supervisory Board's Risk and Capital Committee;
- stress testing rules;
- monitoring of the performance of scoring models and measurement and identification of impaired exposures;
- checking the behavior of Bank customers in the Credit Information Bureau (BIK);
- collateral valuation policy for mortgage-secured credits offered by GCB.

Each portfolio has stress testing performed at least on an annual basis.

Credit risk assessment and rating

The Group maintains consistent risk ratings methodology across the corporate and commercial credit portfolio, which facilitates comparison of credit exposure across all lines of business, geographic regions and products.

Obligor Risk Rating and Obligor Limit Rating are elements of the assessment of credit risk associated with granted products. Obligor Risk Ratings reflect an estimated probability of default for an obligor within 1 year and are derived primarily through the use of statistical models, external rating agencies, or scoring models.

Obligor Limit Rating (OLR) as a measure of medium to long-term risk of the obligor is subject to assessment in terms of qualitative factors including: cyclicality, sector, management, strategy, vulnerability to regulatory environment, transparency and quality of control processes.

Facility Risk Ratings are assigned using the obligor risk rating and facility-level characteristics such as collateral, thus decreasing the potential loss on a facility in case of default. As a result, Facility Risk Rating reflects a potential expected loss given-default

Credit Risk is measured at a number of levels, including:

- At facility level, which may include one or more contracts, disposals or transactions;
- At obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed;
- At group level, considering the group structure of multiple obligors with common ownership and/or organization;
- At portfolio level where Portfolio Risk Rating is calculated as the average rating of individual facility exposure ratings weighted with the size of exposure.

In case of the amount of exposure, the measurements methods vary from the most simple, such as the value of the asset, to complex, such as estimating potential replacement cost on a derivative contract. The processes required for these measurements also vary considerably, from a simple feed of balances to a complex, multiple simulation engine. With reference to exposures resulting from counterparty credit risk (pre-settlement) for the purpose of risk management, the Bank uses PSE measure (Pre-Settlement Exposure) reflecting future potential exposure of the counterparty. PSE reflects maximum expected exposure of the counterparty during the life of the transaction (or transaction portfolio) at a specific confidence level.

Mark-to-market distribution and PSE amount are dependent on market factors determining the values for particular transactions in the customer portfolio. In case of lack of sufficient data for simulation of transaction portfolio value, more simplified methods are used, which also apply to measurement of exposure for internal capital purposes.

For retail credit exposures, the Group uses scoring models developed on the basis of the history of behavior of the Group's customers. Such models analyze the behavior of customers in the Credit Information Bureau as well as customer demographics. The quality of performance of scoring models is reviewed on an ongoing basis and monitored annually. As a result, modifications are made in the model or the credit policy.

Credit risk of the retail credit portfolio is measured based on dedicated scoring models and reporting techniques including an analysis of ratios for new customers and existing portfolios with and without impairment.

The effectiveness of scoring models used in risk assessment processes is regularly monitored with population stability reports, KS (Kolmogorov-Smirnov) test reports and portfolio quality reports (delinquency and loss ratios). Each scoring model is validated annually.

Credit risk monitoring

Risk management units, supported by business units responsible for the cooperation with customers, are responsible for monitoring the probability of obligor default.

Credit risk exposure is monitored and managed at two levels:

a. customer level, and

b. portfolio level.

Exposure monitoring and management at customer level includes periodic control reports, an early warning system and periodic reviews of the customer's standing.

Monitoring of portfolio performance and identification of portfolio trends include regular management reports and control reports which also support active response to negative signals or trends.

In addition to various credit reports, risk managers and business representatives conduct regular round tables regarding the portfolio in order to review business pipelines and discuss the credit issues.

In GCB, monitoring covers scoring models, impairment measurements, delinquencies, the effectiveness of debt collection, internal limits, customer behavior checks with BIK, benchmarks, etc.

Risk mitigation

Risk mitigation is a constant and key element of the Group's credit risk management processes. It is achieved as described below:

- Target market and customer selection criteria are determined;
- Maximum credit exposure against obligor is determined through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
- Limits are established and monitored in order to mitigate exposure concentration risk;
- Robust credit due diligence standards are established and maintained;
- Credit process standards are established in order to ensure a consistent approach to each segment;
- Documentation standards are applied;
- Collateral is used in order to minimize the risk and to manage residual risk;
- Expected collateral structure or credit value in relation to collateral value is determined;
- The value of collateral on property and equipment is determined by dedicated specialty functions within the Bank using external valuation where required;
- Credit exposures monitoring and early warning system are used;
- Active portfolio management includes implementation of necessary modifications to the credit strategy based on portfolio reviews or stress testing.

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Group has defined specific Corporate and Consumer rules of accepting, assessing, establishing and monitoring various types of collateral, including guarantees and similar forms of support (jointly: "collateral"). These rules serve to minimize the residual risk associated with collateral.

As an additional element limiting this risk, in financing of companies and individuals who pursue business activity, revenues from the customer's ongoing business are the key element of creditworthiness assessment of potential borrowers and the primary source of repayment of debt to the Group.

In order to diversify risks associated with collateral, the Group accepts various types of collateral:

- In the Consumer Bank, the most common type of collateral is residential real estate;
- In the Corporate and Commercial Bank, the following types of collateral are mainly accepted:
  - Guarantees,
  - Cash,
  - Securities,
  - Receivables,
  - Inventory,
  - Real estate,
  - Equipment and machines (including vehicles).

Detailed procedures outlining the types of collateral acceptable to the Group and the rules of their establishment and valuation as well as the creation of a special risk unit responsible for the collateral management process allow for the development of appropriate standards for this process, including:

- criteria for acceptance and valuation of collateral;
- documentation standards;
- rules of collateral value monitoring (including inspections).

In addition, Corporate Banking credit regulations set such parameters as:

- the structure of collateral required for different types of credit receivables;
- relationship of loan value to collateral value for each type of collateral;
- desirable structure of the different types of collateral in the credit portfolio.

The Group periodically checks whether the current structure of the collateral portfolio in Corporate Banking is compatible with the objectives and whether the value of the collateral is sufficient.

Within the Corporate Bank, the expected ratio of loan value to collateral value is determined in each case in a credit decision. This ratio is also subject to periodic inspection / monitoring.

The principal type of collateral in GCB is an entry in the land and mortgage register for mortgage-secured loans. The Group also uses bridge insurance to mitigate the risk of the borrower's default between the time of disbursement of a loan and the time of making an entry in the land and mortgage register.

The value of collateral is measured at each time on the basis of an expert valuation of real estate commissioned by the Group. Expert valuations are reviewed by an independent valuation division according to valuation guidelines for real estate used as collateral of real estate loans for individuals who are GCB customers. The quality of the division's performance is monitored.

As of 31 December 2013, the financial effect of receivables recovered from collateral for receivables from customers with recognized impairment based on individual measurement in the Group amounted to PLN 124,717 thousand (31 December 2012: PLN 156,323 thousand). This is how much higher the required impairment write-offs of the portfolio would be if the estimation of the write-offs did not include cash flows from such collateral.

Concentration of exposure

The Group sets limits and manages exposures so as to ensure adequate risk diversification in the portfolio. In its credit risk management, the Group defines exposure concentration limits related to the maximum exposure (as per internal reporting):

- against one obligor or a group of multiple obligors with common ownership and/or organization;
- against particular industries (based on the Group's internal classification);
- in a specific foreign currency;
- resulting from transactions generating counterparty credit risk (pre-settlement);
- against the group of the Group's parent entity;
- against mortgage-secured exposures and real estate financing exposures;
- against retail credit exposures of the Consumer Bank Risk Division.

The first two concentrations (against obligors and industries), regarding in particular Corporate and Commercial Bank portfolios, are considered the most significant from the concentration risk management point of view in the Group.

In the obligor exposure management process, the Group also monitors the limits defined by the Banking Act and other supervisory resolutions to ensure compliance, including an additional capital requirement determined for these exposures when needed.

Obligor exposure concentration risk

The Group limits the concentration of its exposure to a single customer or a group of customers with common ownership or organization. As of 31 December 2013, the Group's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Group's equity (as defined below in this report) amounted to PLN 5,928,283 thousand, i.e., 127.6% of equity (31 December 2012: PLN 6,165,674 thousand, i.e., 134.7%). In 2013 and 2012 the Group complied with the provisions on limits of concentration of exposure.

Concentration of exposure to the top 10 non-banking borrowers of the Group:

PLN'000	31.12.2013			31.12.2012		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 1	43,427	966,055	1,009,482	295,507	660,984	956,491
CLIENT 2	716,500	200,050	916,550	716,500	200,050	916,550
GROUP 3	157,436	575,257	732,693	217,657	499,661	717,318
GROUP 4	420,819	218,212	639,031	773,688	161,095	934,783
GROUP 5	412,479	169,411	581,890	303,686	167,502	471,188
CLIENT 6	250,000	300,000	550,000	250,000	-	250,000
GROUP 7	360,239	139,846	500,085	440,436	60,233	500,669
CLIENT 8	-	500,051	500,051	-	50	50
GROUP 9	323,687	174,815	498,502	318,113	175,675	493,788
GROUP 10	354,068	58,733	412,801	443,147	168,222	611,369
Total 10	3,038,655	3,302,430	6,341,085	3,758,734	2,093,472	5,852,206

**Excluding investment in shares and other securities*

The Banking Act of 29 August 1997 and its executive regulations issued by the Polish Financial Supervision Authority (KNF) define maximum exposure limits for the Group. Subject to the conditions laid down in Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed procedures for determining capital requirements for individual risks and Resolution No. 208/2011 of the Polish Financial Supervision Authority of 22 August 2011 regarding specific rules and conditions of including capital requirements in checking compliance with exposure concentration limits and large exposures limits, the Group is allowed to maintain exposure exceeding concentration limits, as defined in Article 71 of the Banking Act, on condition that the excess exposure relates only to transactions classified in the trading portfolio. For the purpose of determining exposure concentration limits set in the Banking Act, equity has been established in accordance with Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 concerning other reductions of first-tier capital, their level, scope and conditions of deducting them against first-tier capital of a Group (...).

As of 31 December 2013, the Group had an exposure to one entity exceeding the statutory exposure concentration limits. The excess exposure resulted from derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's total capital requirement as of 31 December 2013.

*Concentration of exposure in individual industries**

Given that there is a large diversity of customers representing individual industries, the table below shows aggregate data for the Group's gross exposure to the top 20 industries and by type of business in particular reporting periods.

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2013		31.12.2012	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,026,214	18.7%	4,285,518	21.1%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,537,891	11.8%	2,733,355	13.5%
Financial intermediation, excluding insurance and pension funds	2,182,495	10.1%	1,684,544	8.3%
Retail trade, excluding retail trade in vehicles	1,297,340	6.0%	1,226,034	6.0%
Production of food and beverages	1,242,203	5.8%	1,038,106	5.1%
Production and processing of coke and petroleum products	903,130	4.2%	715,034	3.5%
Public administration and national defense, obligatory social security	674,291	3.1%	139,252	0.7%
Wholesale and retail trade in motor vehicles, repair of motor vehicles	672,524	3.1%	832,465	4.1%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	551,562	2.6%	791,205	3.9%
Metal ore mining	500,000	2.3%	500,584	2.5%
Top 10 business sectors	14,587,650	67.7%	13,946,097	68.7%
Construction of buildings	460,380	2.1%	346,996	1.7%
Production of metal goods, excluding machines and equipment	446,220	2.1%	424,532	2.1%
Production of basic pharmaceutical substances, medicines and other pharmaceutical products	430,077	2.0%	681,676	3.4%
Manufacture of rubber and plastic products	407,024	1.9%	280,816	1.4%
Manufacture of electric appliances	371,546	1.7%	453,766	2.2%
Manufacture of machinery and equipment, not elsewhere classified	364,493	1.7%	109,782	0.5%
Production from other non-metallic minerals	361,581	1.7%	217,856	1.1%
Manufacture of furniture	336,509	1.6%	240,335	1.2%
Manufacture of chemicals and chemical products	321,366	1.5%	288,537	1.4%
Business of head offices; management advisory	266,500	1.2%	234,640	1.2%
Top 20 business sectors	18,353,346	85.2%	17,225,033	84.9%
Other sectors	3,164,542	14. 8%	3,042,386	15.1%
Total	21,517,888	100.0%	20,267,419	100.0%

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

Although concentration in selected sectors changed compared to the end of 2012, the overall concentration of the portfolio remained stable.

Gross amounts due from customers and banks by type of business

PLN'000	31.12.2013	31.12.2012
Gross amounts due from economic entities and banks		
Financial	3,706,320	2,258,337
Production	3,745,767	3,699,331
Services	621,351	752,894
Other	5,863,934	6,182,812
	13,937,372	12,893,374
Gross amounts due from individual customers	5,819,088	5,920,992
(see Note 20, 25)	19,756,460	18,814,366

In addition to monitoring the present concentration against established limits, the Group also monitors other potential concentrations (by geography and by collateral); however, in view of the specificity of the Group's portfolio, no limits have been established for such concentrations (other than limits of mortgage-secured exposures).

Management of impaired exposures

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. The Group has put in place a uniform internal system for classification of receivables against predetermined criteria.

Credit exposures with identified impairment are divided into two categories. There is portfolio of exposures managed on the basis of individual classification (classifiable portfolio) and a portfolio of exposures managed on the basis of days of delinquency (delinquency managed portfolio). Eligibility for either portfolio depends on the amount of aggregate exposure to the customer and the exposure management process applied.

For customers in the classifiable portfolio, loans are treated as impaired when there is objective evidence of credit exposure impairment, which may be a result of the following:

- Significant financial difficulty of the obligor;
- Breach of contract, such as default or delinquency in interest or principal payments;
- Granting the borrower a concession, which the lender would not otherwise consider, due to economic or legal reasons relating to the borrower's financial difficulty;
- High probability of customer bankruptcy or information on opened bankruptcy proceedings;
- National or local economic conditions that may be correlated with default of exposure;
- Payment overdue for more than 60 days;
- Significant deterioration of the customer's rating;
- Bank's petition for an enforcement procedure to be opened against the customer;
- Downgrade of the counterparty's rating by a recognized external credit rating institution accepted by the Bank.

For customers in the delinquency managed portfolio, loans are considered impaired as soon as a specified benchmark of days past due is met.

Risk Management regularly evaluates the adequacy of the established write-offs for impaired loans.

Customers in the classifiable portfolio (individual assessment)

Impairment is determined by estimating the exposure loss, case by case, and the following factors are considered:

- Aggregate exposure to the customer;
- The viability of the customer's business model and the capacity to successfully work out their financial difficulties;
- Generating sufficient cash flows to service debt obligations;
- The amount and timing of expected payments;
- The probability of meeting granted contingent commitments;
- The realizable value of collateral and the probability of successful repossession (considering all legal risks and hedge maintenance costs until disposal);
- The expected receipts due to enforcement, bankruptcy and liquidation;
- Estimation of possible expenses concerned in recovering outstanding amounts;
- Where appropriate, the market price of debt.

It is required that the level of impairment write-offs on classifiable exposures that are above materiality thresholds to be reviewed at least quarterly. The review covers collateral held and an assessment of actual and anticipated payments.

Customers in the delinquency managed portfolio (portfolio assessment)

For exposures that are not considered individually significant, impairment is calculated on a portfolio basis, essentially when a specified benchmark of days past due is met. A formulaic approach is used which allocates progressively higher percentage loss rates the longer a customer's loan is overdue.

The tables below present the Group's portfolio grouped by receivables from customers with established impairment are and without impairment. The tables also present the details of impairment write-offs. Impaired receivables are divided into the classifiable portfolio (individual assessment) and the delinquency managed portfolio (portfolio assessment). Exposures without impairment are classified based on internal risk ratings from 1 to 7, where risk category 1 is the best rating.

The internal risk ratings are received in the complex credit assessment's process, which consists of rating models and methodologies, additional corrections resulting among others from the acquired support and the security, and all the defined processes used in order to get risk ratings.

The risk rating defines the probability of breach of contract by the debtor within the 1 year period. Ratings from 1 to 4- inclusive are treated as the equivalent of ratings at the level of investments of external credit rating agencies, what implies that they indicate low or medium level of credit risk. Ratings below 4- indicate increased credit risk, wherein the rating 7 means high credit risk and low ability to service debt obligations, even in favorable macroeconomic conditions.

The main criterion of impairment for GCB customers is a delay in payment of the principal amount and interest, a minimum payable balance, a commission, or an exceeded balance limit. For purposes of impairment, it is assumed that the criterion is met when a payment is overdue for at least 90 days at the impairment assessment date.

Irrespective of delinquency days, impaired exposures include exposures for which the Group has accepted a facilitation of payment (restructuring of debt), which it would otherwise not consider, due to economic or legal reasons relating to the financial difficulty of the customer, where the Group does not receive an adequate compensation. Adequate compensation is understood as additional income earned, as a result of which the present value of cash flows is not lower than the carrying value before restructuring.

Additional criteria of impairment include:

- death, permanent disability or serious illness;
- fraud;
- information about initiated bankruptcy proceedings by the customer or bankruptcy declared by the customer;
- impairment or risk of impairment of collateral;
- detention or imprisonment of the customer;
- partial cancellation of the principal amount;
- termination of contract;
- petition of the Bank for an enforcement procedure to be opened against the customer.

The table below presents the maximum exposure of the Group to credit risk:

PLN'000	Note	31.12.2013	31.12.2012
Gross receivables due from banks	20	3,541,100	1,462,027
Gross receivables due from corporate customers	25	10,396,272	11,431,347
Gross receivables due from individual customers	25	5,819,088	5,920,992
Debt securities held-for-trading	21	2,215,673	2,532,055
Derivative instruments	21	3,531,126	4,306,428
Debt securities available-for-sale	22	17,616,041	15,003,003
Other financial assets	30	295,782	508,828
Contingent liabilities granted	44	15,901,139	14,253,958
		59,316,221	55,418,638

Commitment due to customers in terms of credit risk

PLN'000	31.12.2013			31.12.2012		
	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks
Impaired receivables						
Individual receivables						
Gross amount	**508,212**	**8,400**	**-**	**584,644**	**5,928**	**-**
Impairment write-off	371,075	3,084	-	398,506	2,325	-
Net amount	**137,137**	**5,316**	**-**	**186,138**	**3,603**	**-**
Portfolio receivables						
Gross amount	**75,957**	**636,745**	**-**	**74,667**	**742,893**	**-**
Impairment write-off	50,802	471,977	-	47,060	564,428	-
Net amount	**25,155**	**164,768**	**-**	**27,607**	**178,465**	**-**
Not impaired receivables						
by risk rating						
Risk rating 1-4-	5,802,138	-	3,272,899	6,726,857	-	1,454,135
Risk rating +5-6-	3,806,562	-	267,476	3,911,704	-	7,892
Risk rating +7 and greater	203,403	-	725	133,475	-	-
by delinquency						
no delinquency	-	4,898,946	-	-	4,827,705	-
1-30 days	-	212,290	-	-	255,525	-
31-90 days	-	62,707	-	-	88,941	-
Gross amount	**9,812,103**	**5,173,943**	**3,541,100**	**10,772,036**	**5,172,171**	**1,462,027**
Impairment	26,348	60,747	1,173	24,567	94,041	126
Net amount	**9,785,755**	**5,113,196**	**3,539,927**	**10,747,469**	**5,078,130**	**1,461,901**
Total net amount	9,948,047	5,283,280	3,539,927	10,961,214	5,260,198	1,461,901

PLN'000	31.12.2013			31.12.2012		
	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks
Impairment write-offs for impaired receivables						
Impairment write-offs for individual receivables	371,075	3,084	-	398,506	2,325	-
Impairment write-offs for portfolio receivables	50,802	471,977	-	47,060	564,428	-
IBNR provisions						
by risk rating						
Risk rating 1-4-	1,457	-	303	1,659	-	86
Risk rating +5-6	17,191	-	859	18,141	-	40
Risk rating +7 and greater	7,700	-	11	4,767	-	-
by delinquency						
no delinquency	-	22,628	-	-	32,058	-
1-30 days	-	14,764	-	-	24,250	-
31-90 days	-	23,355	-	-	37,733	-
	26,348	60,747	1,173	24,567	94,041	126
Total impairment write-offs	448,225	535,808	1,173	470,133	660,794	126

In case of receivables due from individual customers not impaired and without delay in payment, the Group analyzes the quality of the credit portfolio in terms of delinquency history. From the amount of PLN 4,898,946 thousand in the end of 2013 (in 2012: PLN 4,827,705 thousand), the amount of PLN 243,256 thousand is related to receivables which from the moment of their arising at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days) and the amount of PLN 7,726 thousand is related to receivables which at least once have exceeded 90 days of delay in payment (respectively PLN 220,405 thousand and PLN 8,139 thousand in 2012).

Receivables not impaired by delinquency:

PLN'000	31.12.2013			31.12.2012		
	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks
Receivables with incurred but not recognized (IBNR) losses						
Regular receivables	9,715,024	4,898,946	3,541,100	10,656,827	4,827,705	1,462,027
Overdue receivables, including:	97,079	274,997	-	115,209	344,466	-
1-30 days	88,681	212,290	-	88,964	255,525	-
Gross amount	9,812,103	5,173,943	3,541,100	10,772,036	5,172,171	1,462,027

Structure of derivatives in terms of credit risk

PLN'000	31.12.2013			31.12.2012		
	Transactions with corporate customers	Transactions with individual customers	Transactions with banks	Transactions with corporate customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	186,040	-	3,313,078	255,102	-	3,968,341
Risk rating+5-6-	13,474	-	16,600	19,663	-	54,800
Risk rating +7and greater	1,920	-	13	8,522	-	-
Amount	201,434	-	3,329,691	283,287	-	4,023,141

The classification of exposures in the portfolio of debt securities held for trading and portfolio of debt securities available for sale by ratings agency Fitch is presented below

The portfolio of debt securities held-for-trading in the end of 2013 in the amount of PLN 2,215,673 thousand includes debt securities with A issuer rating in amount of PLN 1,938,149 thousand and BBB- in amount of PLN 277,524 thousand. The portfolio of debt securities held-for-trading in the end of 2012 in the amount of PLN 2,532,055 thousand entirely includes debt securities with A issuer rating.

The portfolio of debt securities available-for-sale in the end of 2013 in the amount of PLN 17,616,041 thousand (in 2012: PLN 15,003,003 thousand) entirely includes debt securities with A issuer rating.

Other financial assets in amount of PLN 295,782 thousand in the end of 2013 (PLN 508,828 thousand in the end of 2012) include receivables with delinquency over 90 days in amount of PLN 6,346 thousand (PLN 9,548 thousand in the end of 2012).

Structure of granted contingent liabilities in terms of credit risk:

PLN'000	31.12.2013		31.12.2012	
	Liabilities due to corporate customers	Liabilities due to banks	Liabilities due to corporate customers	Liabilities due to banks
Granted contingent liabilities by risk rating				
Risk rating 1-4-	7,792,063	411,916	6,804,797	165,777
Risk rating+5-6-	2,492,482	7,966	2,189,333	7,506
Risk rating +7 and greater	191,985	-	167,111	-
Amount	10,476,530	419,882	9,161,241	173,283

In case of granted contingent liabilities due to individual customers, the Group analyzes the quality of the credit portfolio in terms of delinquency history. From the amount of PLN 5,004,727 thousand in the end of 2013 (in 2012: PLN 4,919, 434 thousand), the amount of PLN 221,064 thousand is related to liabilities which from the moment of their arising at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days) and the amount of PLN 1,476 thousand is related to receivables which at least once have exceeded 90 days of delay in payment (respectively PLN 195,243 thousand and PLN 1,793 thousand in 2012).

The Group's ratio of impairment write-offs to receivables is presented in the table below:

PLN'000	2013	2012
Gross amount		
Receivables with recognized impairment, including:	1,229,314	1,408,132
Individual receivables	516,612	590,572
Portfolio receivables	712,702	817,560
Receivables without recognized impairment	18,527,146	17,406,234
Total gross amount	19,756,460	18,814,366
Impairment write-offs		
Receivables with recognized impairment, including:	896,938	1,012,319
Individual receivables	374,159	400,831
Portfolio receivables	522,779	611,488
Receivables without recognized impairment	88,268	118,734
Impairment write-offs in total	985,206	1,131,053
Net amount		
Receivables with recognized impairment, including:	332,376	395,813
Individual receivables	142,453	189,741
Portfolio receivables	189,923	206,072
Receivables without recognized impairment	18,438,878	17,287,500
Total net amount	18,771,254	17,683,313
Ratio of impairment write-offs to receivables with recognized impairment	73.0%	71.9%

Liquidity risk

The processes and organization of liquidity risk management

Liquidity risk is defined as the risk that the Group may not be able to meet its financial commitments to customers or counterparties when due.

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure liquidity necessary to clear all money market transactions when due.

Liquidity risk management is based on:

- Applicable law, in particular on the Banking Law;
- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable management of the Bank as well general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Bank operates under approved liquidity risk limits lies within the Management Board of the Bank, and ongoing market risk management is performed by:

- Member of the Management Board of the Bank – Head of the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit.
- Persons delegated to risk management in the Group's entities.

Liquidity management

The objective of liquidity risk management is to ensure that the Bank and Group's entities have adequate access to liquidity in order to meet its financial obligations when due, including under extreme but probable stress conditions.

The Group analyses and manages liquidity risk in several time horizons while distinguishing current, short-, mid- and long-term liquidity, to which appropriate risk measurement methods and limits apply.

Long-term liquidity management is the responsibility of ALCO and as such it is reflected in the Group's strategy. It is based on the monitoring of balance sheet structural ratios and on long-term regulatory liquidity measures and includes the analysis of liquidity gaps, the ability to acquire in the future sufficient funding sources as well as funding costs in the light of the overall business profitability.

Mid-term liquidity management, in the one-year time horizon, is the responsibility of ALCO and is based on the process of the Annual Funding and Liquidity Plan defining the size of internal limits taking into account the business plans for assets and liabilities changes prepared by business units of the Group as part of financial plans for the next budget year.

Short-term liquidity management, in the three-month time horizon, is the responsibility of the Treasury Division and is performed based on short-term regulatory liquidity measures as well as internal limits. In addition, the Group analyses liquidity under stress scenarios, assuming the lack of liquidity gaps in all tenors up to three months as a necessary condition.

Current liquidity management is the responsibility of the Treasury Division and comprises the management of the balances on the Group's nostro accounts and especially the mandatory reserve account with NBP while applying available money market products and central bank facilitates.

Liquidity management with accordance to "Risk management principals" in Group's entities is a part of the entities management board responsibilities. ALCO is the supervisor of the Group's entities liquidity supervisory.

Funding and Liquidity Plan

The Head of the Group's Treasury Division is responsible for preparing an annual Funding and Liquidity Plan ("Plan") for the Group and obtaining the ALCO approval for the Plan. The Plan addresses all funding or liquidity issues resulting from businesses plans, especially in the customer deposits and loans area, as defined in annual budgets of particular business entities, as well any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

The Bank measures and manages liquidity risk by applying both external regulatory measures and additional internal liquidity measures.

Internal liquidity risk management tools

In addition to the regulatory liquidity measures, the Bank's Group applies a range of liquidity risk management tools including:

- Gap analysis – Market Access Report (MAR);
- Stress scenarios;
- Liquidity ratios;
- Market Triggers;
- Significant Funding Sources;
- Contingency Funding Plan.

Stress scenarios

Stress tests are intended to quantify the potential impact of an event on the Group's balance sheet and cumulative gap over a three-month period, and to ascertain what incremental funding may be required under any of the defined scenarios. The scenarios are proposed by the Bank's Treasury and Market Risk and approved by ALCO.

The Group conducts the stress tests monthly. The scenarios assume material changes in the underlying funding parameters, i.e.:

- Concentration event;
- Highly Stressed Market Disruption ("S2");
- Local market event.

Contingency Funding Plan

Treasury is responsible for the preparation and annual update of the Contingency Funding Plan, which defines the Bank's action plan in case of a contingency, specifically in cases assumed in liquidity stress scenarios and described in the annual Funding and Liquidity Plan. The Contingency Funding Plan is approved by ALCO.

The Contingency Funding Plan defines:

- Circumstances / symptoms of contingency events;
- Responsibilities for executing the action plan;
- Sources of liquidity, and in particular the principles of maintenance of a liquid assets portfolio to be used in the case of a liquidity contingency;
- Rules for assets disposal and balance sheet restructuring;
- Procedures for restoring customer confidence.

The levels of the cumulative liquidity gap in cash flows and the level of liquid assets as of 31 December 2013 and 31 December 2012 are shown in the tables below.

The cumulative liquidity gap as of 31 December 2013 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	11,891,135	330,718	10,000	-	33,166,536
Liabilities	8,923,893	643,002	1,485,820	29,156	34,316,518
Balance sheet gap in the period	2,967,242	(312,284)	(1,475,820)	(29,156)	(1,149,982)
Conditional derivative transactions - inflows	15,932,787	894,564	6,969,708	9,803,307	13,624,421
Conditional derivative transactions - outflows	15,995,106	1,074,591	7,083,140	9,848,427	13,559,271
Off-balance-sheet gap in the period	(62,319)	(180,027)	(113,432)	(45,120)	65,150
Cumulative gap	2,904,923	2,412,612	823,360	749,084	(335,748)

The cumulative liquidity gap as of 31 December 2012 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	9,765,848	-	-	-	33,742,915
Liabilities	10,506,745	15,653	430,162	35,614	32,520,589
Balance sheet gap in the period	(740,897)	(15,653)	(430,162)	(35,614)	1,222,326
Conditional derivative transactions - inflows	13,145,218	3,934,663	17,757,422	8,030,165	11,529,551
Conditional derivative transactions - outflows	13,144,474	4,051,952	17,951,240	8,079,727	11,726,748
Off-balance-sheet gap in the period	744	(117,289)	(193,818)	(49,562)	(197,197)
Cumulative gap	(740,153)	(873,095)	(1,497,075)	(1,582,251)	(557,122)

Liquid assets and the cumulative liquidity gap up to 1 year:

PLN'000	31.12.2013	31.12.2012	Change
Liquid assets, including:	20,243,696	18,588,543	1,655,153
nostro account in NBP and stable part of cash	411,982	1,053,485	(641,503)
debt securities held-for-trading	2,215,673	2,532,055	(316,382)
debt securities available-for-sale	17,616,041	15,003,003	2,613,038
Cumulative liquidity gap up to 1 year	823,360	(1,497,075)	2,320,435
Coverage of the gap with liquid assets	Positive gap	1,242%	N/a

Financial liabilities of the Group, by contractual maturity, are presented below. Presented amounts do not include the impact of effective rate on the interest payable.

As of 31 December 2013

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	32	6,378,441	3,880,752	622,080	1,706,623	168,958	28
Financial liabilities held-for-trading							
Short positions in financial assets	21	481,601	481,601	-	-	-	-
Amounts due to customers, including:	34	26,568,789	25,831,085	376,695	350,236	10,698	75
Deposits from financial sector entities	34	3,259,889	3,238,130	10,448	10,677	622	12
Deposits from non-financial sector entities	34	22,824,847	22,167,366	349,047	300,069	8,302	63
Other liabilities	34	484,053	425,589	17,200	39,490	1,774	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	21	3,044,118	80,830	126,408	341,065	2,072,808	423,007
Hedging derivatives	33	24,710	-	-	-	23,798	912
Unused credit lines liabilities	44	12,199,651	11,251,798	4,513	173,861	682,404	87,075
Guarantee lines	44	1,813,348	1,813,348	-	-	-	-
		50,510,658	43,339,414	1,129,696	2,571,785	2,958,666	511,097
Derivatives settled on a gross basis							
Inflows		46,996,914	16,766,477	1,091,584	6,470,021	18,778,066	3,890,766
Outflows		47,352,634	16,694,117	1,104,269	6,573,129	19,072,989	3,908,130
		(355,720)	72,360	(12,685)	(103,108)	(294,923)	(17,364)

As of 31 December 2012

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	32	2,356,438	2,002,879	-	288,776	64,759	24
Financial liabilities held-for-trading							
Short positions in financial assets	21	1,027,729	1,027,729	-	-	-	-
Amounts due to customers, including:	34	26,852,230	25,847,342	450,119	536,328	18,348	93
Deposits from financial sector entities	34	2,794,850	2,612,536	5,534	160,762	16,006	12
Deposits from non-financial sector entities	34	20,834,934	20,055,385	419,496	358,093	1,879	81
Other liabilities	34	3,222,446	3,179,421	25,089	17,473	463	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	21	3,809,270	124,324	178,255	305,514	2,345,351	855,826
Unused credit lines liabilities	44	11,092,470	10,200,430	17,086	314,945	412,329	147,680
Guarantee lines	44	1,799,810	1,799,810	-	-	-	-
		46,937,947	41,002,514	645,460	1,445,563	2,840,787	1,003,623
Derivatives settled on a gross basis							
Inflows		53,149,747	13,303,983	3,980,278	17,088,166	15,970,616	2,806,704
Outflows		53,662,203	13,325,688	4,091,598	17,221,173	16,198,015	2,825,729
		(512,456)	(21,705)	(111,320)	(133,007)	(227,399)	(19,025)

Market risk

The processes and organization of market risk management

Market risk is the risk of negative impact on the Group's earnings and equity resulting from changes in market interest rates, foreign exchange rates, equity and commodity prices, as well all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of risk accepted within the Bank corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group.

Market risk management in the Group is based on:

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable management of the Bank as well general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Bank operates under approved market risk exposure limits lies within the Management Board of the Bank, and ongoing market risk management is performed by:

- Member of the Management Board of the Bank – Head of the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Heads of risk-taking business units;
- Persons delegated to risk management in Group entities.

Market risk management

Scope of risk

Market risk management applies to all portfolios generating income exposed to the negative impact of market factors including interest rates, foreign exchange rates, equity prices, commodity prices and the parameters of their volatility. Two types of portfolios have been defined for the purpose of market risk management: trading portfolios and bank portfolios.

The trading portfolios include transactions in financial instruments (balance-sheet and off-balance-sheet instruments) expected to generate income owing to change in market parameters over a short period. The trading portfolios include balance-sheet items such as debt securities held-for-trading, i.e., debt securities acquired to be further traded and meeting pre-defined liquidity criteria, as well as all derivative instrument positions broken down into portfolios acquired purely for trading and transactions executed in order to provide an economic hedge of bank portfolio positions. The trading portfolios are valued directly at market prices or using market pricing-based valuation models. The trading portfolio operations are performed by the Bank's Treasury Division in respect of interest rate risk portfolios and FX risk portfolios.
The trading portfolio also includes options, mainly foreign exchange options and interest rate options. In this area, the Group concludes transactions in a way which ensures concurrent (at each time and immediate) conclusion of an opposite transaction with the same parameters and, in consequence, the option portfolio is excluded from the calculation and monitoring of market risk. The only item related to the conclusion of option transactions which is reflected in market risk measurement, and in particular in foreign exchange risk, is the premium paid/received in a foreign currency.

The bank portfolios include all other balance-sheet and off-balance-sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize a profit over the entire contracted transaction period. The Bank's Treasury Division takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the Group. The mechanism of transferring the interest rate risk positions is based on the transfer price system.

Measurement of the pricing risk of the bank portfolios

The Group typically uses the following methods for measuring the risk of the bank portfolios:

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;
- Interest Rate Exposure (IRE); and
- Stress testing.

Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions and of derivative instruments used in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time range.

The general rule in the interest rate gap analysis is that of classifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate revaluation dates.

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities available-for-sale with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated at a regular frequency (primarily, loans granted with interest set based on a specific rate such as, e.g., WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e., any changes in the interest rate and its revaluation date are reserved to sole decision of the Bank) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;
- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the Treasury Division for the purpose of management of interest rate risk and liquidity risk (Treasury Division's own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

The Interest Rate Exposure (IRE) method is used for estimation of potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Bank normally applies IRE measures with one-year and five-year time horizons.

The table below presents the IRE measures for the Group as of 31 December 2013 and 31 December 2012. The list has been broken down into the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Group's balance-sheet.

PLN'000	31.12.2013		31.12.2012	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	51,840	213,324	39,957	164,132
USD	5,610	7,076	5,872	21,540
EUR	16,515	(5,735)	11,789	42,146

Stress tests measure the potential impact of material changes in the level or directionality of interest rate curves on open interest positions in the bank portfolio.

The Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and adjusted as appropriate to changes in the market conditions of the Group's operation.

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management Bureau within the Treasury Division. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows:

- management of the liquidity;
- hedging against the risk transferred to the Treasury Division from other organizational units of the Bank or the Group's entities;
- opening of own interest rate risk positions on the Group's books by the Treasury Division.

In order to avoid excessive fluctuations in the Bank's capital funds, caused by the revaluation of assets held-for-sale, the maximum limits of DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards, are established for this kind of portfolio. The limits also concert the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

Hedge accounting program

In addition to the general rules limiting market risk, in particular, interest rate risk, the Group has defined rules for the application of fair value hedge accounting. The main risk, which is hedged under hedge accounting is the risk of changes in interest rates resulting from holding portfolio of securities available for sale (AFS) with fixed interest rates. At the end of each month, the Group shall evaluate the effectiveness of the hedging instrument used, by analyzing the changes in the fair value of the hedged and hedging instrument in respect of the risk being hedged.

The hedged item is part of a portfolio of securities available for sale at a fixed interest rate, denominated in PLN and EUR. In all cases, the hedging instrument is the interest rate swap (IRS), which converts the fixed interest rate on a variable. Gains and losses arising from revaluation at fair value of the hedging instrument and changes in the fair value of the hedged items are reflected - in part resulting from the hedged risk - in profit and loss item "Net income from hedge accounting".

The table below presents the risk measured with DV01 for the portfolio of securities available-for-sale, including the economic collateral, broken down by currency:

PLN'000	31.12.2013			31.12.2012			Total in the period 01.01.2013 – 31.12.2013		
	Total	Securities	IRS	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(911)	(1,799)	888	(2,975)	(2,975)	-	(1,782)	(2,769)	(911)
USD	(118)	(118)	-	(56)	(56)	-	(136)	(357)	-
EUR	(503)	(647)	144	(110)	(110)	-	(567)	(831)	(110)

The Group's activities involving investments in debt securities available-for-sale were also one of the main factors influencing changes in the level of the risk of mismatch in revaluation periods as expressed by the IRE measure.

Measurement of the market risk of the trading portfolios

The following methods are applicable in measurement of the risk of the trading portfolios:

- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g., change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%).

In the case of interest rates, the applicable sensitivity measure is DV01.

In the case of exchange rate (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency.

In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units).

Value at Risk (VaR) is the integrated measure of the market risk of trading portfolios which combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Group's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities available-for-sale, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the bank portfolio risk limits.

Each day, the Group runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario and ignoring the historical correlations of these factors.

The Group keeps records of exposures of the bank portfolios to market risk in over twenty currencies both for currency positions and exposures to interest rates risk. These exposures are significant only for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the customer's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.

The values of significant exposures to the interest rate risk of the trading portfolios risk in terms of DV01 in 2013 are presented in the table below:

PLN'000	31.12.2013	31.12.2012	In the period 01.01.2013 - 31.12.2013		
			Average	Maximum	Minimum
PLN	164	279	100	726	(535)
USD	(76)	24	(243)	36	(784)
EUR	65	(72)	23	125	(154)

Average exposures to the interest rate risk in the local currency in 2013 was very close to the level from the previous year and amounted PLN 100 thousand. Average exposures to the interest rate risk in EUR and USD were higher than in 2012 (e.g., DV01 in EUR amounted PLN 243 thousand, compared to PLN 36 thousand in the previous year). Most of the biggest exposures accepted by the Treasury Division were higher than in the previous year. The maximum exposure in PLN was PLN 726 thousand compared to PLN 494 thousand in 2012 and the position in EUR amounted to PLN (784) thousand compared to PLN 266 thousand in the previous year.

The Treasury Division, which trades in financial instruments within the Group, continued the strategy of very active management of exposures to FX risk and interest rate risk by adjusting the volume and direction of such exposures depending on changing market conditions, which is reflected in the range of volatility of these exposures (the minimum and the maximum values in the table above).

The table below presents the levels of risk measured by VaR (net of economic hedges of the portfolio of securities available-for-sale) broken down by FX risk and interest rate risk position in 2013:

PLN'000	31.12.2013	31.12.2012	In the period 1.01.2013 - 31.12.2013		
			Average	Maximum	Minimum
FX risk	1,629	1,036	1,459	5,891	89
Interest rate risk	3,803	7,762	7,509	15,407	3,798
Spread risk	8,068	10,970	11,848	19,662	7,645
Overall risk	9,181	13,026	14,523	22,221	9,179

The overall average level of the market risk of the trading portfolios was 7% higher in 2013 than the average level in 2012, representing an increase by over PLN 1 million, mainly as a result of higher exposures to basis spreads. The maximum price risk level was PLN 22.2 million, compared to PLN 17.04 million in 2012.

Equity instruments risk

Dom Maklerski Banku Handlowego S.A. ("DMBH") is the Group's key company trading in equity instruments. In its core business, DMBH has been authorized to accept pricing risk of the trading portfolio of shares, or rights to shares, traded or likely to be traded on the Warsaw Stock Exchange ("WSE"), or Centralna Tabela Ofert ("CTO"), WIG20 index futures and Indexed Participation Units, as well as shares of companies dual-listed on the WSE which are traded on international stock exchanges. The pricing risk of DMBH's portfolios of instruments is managed by means of volume limits applicable to specific types of financial instruments and concentration warning thresholds applicable to instruments of specific issuers. Moreover, DMBH uses warning thresholds of potential loss under stress scenarios and the cumulative realized loss on the trading portfolio.

The Group's FX exposure

The table below presents the Group's FX exposure by main currencies:

31.12.2013

PLN'000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	6,062,074	8,651,486	6,979,618	4,292,134	98,072
USD	4,003,588	4,807,870	3,379,668	2,588,651	(13,265)
GBP	832,900	839,542	5,967	-	(675)
CHF	854,091	452,573	25,111	426,431	198
Other currencies	746,342	737,968	344,564	354,871	(1,933)
	12,498,995	15,489,439	10,734,928	7,662,087	82,397

31.12.2012

PLN'000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,752,504	5,418,512	3,984,868	2,178,249	140,611
USD	3,310,617	3,748,608	2,720,593	2,322,573	(39,971)
GBP	744,330	778,407	36,073	705	1,291
CHF	729,900	323,669	160,834	556,935	10,130
Other currencies	409,754	642,996	714,355	505,067	(23,954)
	8,947,105	10,912,192	7,616,723	5,563,529	88,107

Operational risk

Operational Risk definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events.

Operational Risk includes reputation and franchise risk associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk (defined below).

Operational Risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Definition of Operational Risk in the Group covers:

- Technological and technical risk – risk of disruption of Group's activity due to technology infrastructure and telecommunications systems failure;
- Outsourcing risk – operational risks associated with the outsourcing of the Group outsourced certain activities, which may result in a negative impact on the continuity, integrity, stability or quality of the Group's activities;
- Misappropriation risk – risk connected with willful act to the detriment of Group by its employees or third parties;
- Money Laundering risk – risk of losses due to involvement in money laundering activity conducted by customers, intermediaries or employees;
- Information Security risk – risk of disruption of entity's activity or financial losses due to insufficient security of its resources and information;
- External Events risk (Continuity of Business) – risk of inability of activity continuation by an entity or risk of losses occurring due to extraordinary event, such as earthquake, fires, floods, terrorism, lack of access to the headquarters or media;
- Tax and Accounting risk – risk of negative economical effects due to improper accountancy records, reporting, mistaken calculation of tax obligations or their delayed payments;
- Product risk – risk connected with the sale of product (service), which doesn't meet customers' requirements and needs, is not compliant with the law and regulations, generates additional risks (for an entity and its customers), doesn't have adequate support of the employees and processes;
- Compliance risk – risk of noncompliance with binding legal and regulatory rules, internal Group's regulations and Group's Code of Conduct;
- Legal risk – risk of losses occurring due to instability of legal regulations, changes of law, improper structure of legal relationships, quality of legal documentation, unfavorable conclusions of courts or other bodies in disputed cases, conducted with other entities;
- Models risk – risk of implementation of improperly defined models, parameters, improper application of models or lack of updates. Elements, which are assessed:
  - Data – risk resulting from utilization in models construction improper, unreliable or incomplete data;
  - Forecast – risk resulting from assumptions and simplifications, applied during models constructions or defining parameters;
  - Estimation – risk resulting from utilization in model construction or defining parameters improper tools, techniques or methods (including statistical ones);
  - Administration – risk of improper application and operation of models due to their inadequate monitoring, validation and updating.
- Staffing risk – risk connected with recruitment, availability and professional qualification of employees, their fluctuation, ability to adapt to changes in work environment, work culture, absenteeism, tiredness, inadequate or not adjusted to the scale and complexity Group's organizational structures and similar factors, which may lead to operational losses connected with human factor.

Coordination of the management of the above risk categories rests with specialized Units, according to the competences determined in the Group's Organizational Regulations, Organizational Regulations of sectors, sub-sectors, Group's organizational units and internal procedures. Processes of identification, measurement (assessment), mitigation, control, monitoring and reporting of the above risk categories must be consistent with the principles determined in Strategy of Operational Risk Management.

Main Purposes of Operational Risk Framework

- Providing a single coherent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of operational risk;
- Ensuring effective reduction of the operational risk exposure, and as a consequence, reduction of operational risk events' number and the severity of their consequences (low tolerance policy for operating losses),
- Ensuring compliance with regulatory requirements regarding capital requirements for operational risk,
- Ensuring compliance with regulations connected with operational risk management.

Operational Risk Management Process

Supervisory Board approves, presented by the Management Board, Bank's Strategy, "Principles of Prudent and Stable Risk Management in the Capital Group of Bank Handlowy w Warszawie S.A." and Operational Risk Management Strategy, addressing operational risk inherent in banking activity and determining operational risk management strategy.

Based on synthetic reports presented by the Management Board at least once a year, covering scale and types of operational risk the Group is exposed at, operational risk management principles, probability of risk occurrence, assessment of its possible negative impact and the operational risk profile, the Supervisory Board, supported by Audit Committee and Risk and Capital Committee, assesses realization of strategy (including in view of principles of operational risk management) and, if necessary, orders it's revision.

Supervisory Board supervises and assesses adequacy and effectives of operational risk management. Supervisory Board is supported by Committees for Supervisory Board - Audit Committee, Risk and Capital Committee and Remuneration Committee.

Management Board is responsible for preparation and implementation of a written operational risk management strategy and for design of operational risk management system, its implementation, ensuring consistency with the operational risk management strategy and proper functioning of this system in the entire Bank. Where necessary the Management Board should introduce necessary amendments aiming at improvement of this system.

Within the scope of operational risk management, Management Board approves:

- applied by the Bank definition of operational risk, characterizing in clear and unambiguous way operational risk,
- ultimate operational risk profile, considering scale and structure of operational risk exposure,
- appetite/tolerance for operational risk, including thresholds of total losses in particular Events Category, within specified time frame, and particular actions, which will be undertaken by the Bank, in case the thresholds are exceeded,
- general principles of risk management, including risk identification, assessment, monitoring, mitigation and transfer,
- principles of control system for the operational risk,
- minimum thresholds for collection of operational loss data.

Operational risk management strategy is defined with consideration of processes indispensable for operational risk management, particularly: scope of Bank activities, priorities of management plans and business strategy, availability of funds covering operational losses, organizational structure of the Bank, operational risk profile and changes planned in those areas.

Operational risk management principles and procedures, defined in Operational Risk Management Strategy and Operational Risk Management Policy and Manager's Control Assessment Procedure, refer to all Group activities. Management Board ensures organizational structure, processes and resources adequate to the conducted activities and allowing effective operational risk management.

Management Board utilizes internal audit, control and management information system reports, to fulfill that requirement, to identify potential areas requiring changes and to implement actions required to bring the organization into compliance with the above requirement. Management Board ensures public disclosure of general Group's approach to the operational risk management in order to allow evaluation of the approach by other market players. Market disclosures are published on the Bank's internet site,
in the Annual Consolidated and Solo Financial Reports as well as in Capital Adequacy documentation.

Within Management Board, one of its members – Risk Management Sector Head - supervises unit responsible for operational risk management.

Management Board is supported by Risk and Capital Management Committee and subordinated Operational Risk, Control and Compliance Commissions (BRCC Commissions):

- Operational Risk, Control and Compliance Commission for Corporate and Investment Bank, Risk Management (excluding Consumer Bank Risk Division), Management and Support Sectors (ICG BRCC) and
- Operational Risk, Control and Compliance Commission for Consumer Bank Sector and Consumer Bank Risk Division in the Risk Management Sector (GCG BRCC).

Manager's Control Assessment process and monitoring of Key Risk Indicators or Risk and Control Indicators support ongoing identification, measurement (assessment), control, monitoring and reporting of quality of the control environment and potential threats. Data on operational risk events' effects (losses) is regularly collected and analyzed, to ensure effective risk management. Regular monitoring processes, centralization and automation allow elimination of recurring losses and maintenance of the operational losses within established risk appetite/tolerance.

The Group manages the operating risk using a variety of tools and techniques including the policies, procedures, checklists, approving processes, independent controls, monitoring of trends and limits, self-assessment process, key risk indicators, information security control tools, contingency plans, insurance, and audits.

Arrangement and execution of effective operational risk management process in Bank's subsidiaries rests with Management Boards. Management Boards of those subsidiaries assure adequacy of organizational structures and implementation of processes and procedures aligned with undertaken operational risk. Supervisory Boards of subsidiaries maintain surveillance over operational risk management system and assess its effectiveness and adequacy. Cohesion of operational risk management standards is provided by relevant units in subsidiaries, supported by Bank operational risk management unit. Effectiveness of operational risk management in Bank and its subsidiaries is audited and assessed against consistent criteria.

Internal Control system in scope of Operational Risk

The structure of the control system includes:

- Recognized ownership of the risk by the businesses creating the risk in Group,
- Oversight by independent risk operational risk management unit,
- Independent review by Audit and Risk Review (IA).

Control processes introduced across the Group mitigate causes, reduce reasons of negative effects of operational events' (including operational losses), reduce the probability of events' occurrence and minimize the severity of effects. Examples of control mechanism include segregation of duties (maker-checker), Know Your Customer (KYC) Policy, controlled and reviewed allocation of system access, monitoring of established limits, accounts proofing and reconciliation, verification of data integrity, monitoring of aged items, monitoring of corrective actions, customers' claims monitoring, correction of identified errors and remediation of its causes, fraud preventing measures, training, procedures preventing conflict of interest, employee personal trading pre-clearance. Risk mitigation measures include also risk transfer mechanisms (outsourcing, insurance).

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Each Business Unit must evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite/tolerance and determine the appropriate actions for their mitigation or transfer.

Additionally, periodic assessment of adequacy and effectiveness of controls (Manager's Control Assessment), covers monitoring and testing of the adequacy and effectiveness of the Key Controls, at a frequency commensurate with the underlying risk and frequency of the control, and independent review by internal audit. In case of identification of deficiency or an area of unacceptable risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Completion of corrective actions falls under independent monitoring and control.

Continuity of Business (CoB) plans, aiming at reduction of operational risk exposure, are prepared according to international standards. Quality of those processes is confirmed with a certificate of compliance with BS 25 999 issued by UKAS (United Kingdom Accreditation Service).

The Group manages compliance risk, which is defined as all and any effects of non-compliance with laws, including international regulations or laws of other jurisdictions which are relevant to the Group's operation, internal regulations and the Group's code of conduct. Compliance with laws, internal regulations, corporate regulations, standards of conduct and good practice standards is an integral part of the professional duties of each employee of the Group. It is the responsibility of the Bank's Management Board to effectively manage compliance risk, develop a compliance policy, ensure that it is followed and take corrective or disciplinary action in the event of any irregularities in applying the Bank's compliance policy. Compliance is the Bank's unit which supports the Bank's Management Board and business units and monitors the Bank's subsidiaries to ensure compliance of the Bank's operation with laws, internal standards, regulations and Citigroup policies. Compliance is an independent function, comprising compliance risk identification, assessment, monitoring, testing, reporting and consulting and ensuring compliance with laws, the Bank's internal regulations, codes of conduct and good practice standards. As the unit responsible for coordination and monitoring of compliance in the Bank, the Compliance Department reviews and assesses the Bank's compliance risk management process on an annual basis, in implementation of the Annual Compliance Plan, and submits relevant reports to the Bank's Management Board and Supervisory Board.

Pursuant to legal regulations, the Group can outsource to third parties the performance, on behalf and for the benefit of the Group, of intermediation in banking activities on the basis of an agency contract, as well as factual activities relating to banking operations (outsourcing). All decisions to outsource activities relating to banking activity are in the sole discretion of the Bank's Management Board. The use of third party services gives a greater number of customers access to information on the services and products offered by the Group as well as access to new technological solutions. The Group intends to use the possibility of outsourcing activities relating to banking activity, particularly in areas of information technology and in cases where outsourcing is justified by business needs and at the same time does not endanger secure operation of the Group. As outsourcing involves not only benefits but also increased risk, which the Group can be exposed to in its operation, the Group takes measures aimed at mitigating that type of risk, particularly by ensuring compliance with legal requirements and internal regulations, operating an effective system of internal control, and monitoring co-operation with third parties, security of processed information and privileged banking information.

Staffing risk is monitored based on staff rotation indicators, opinions of employees, and market levels of staff remuneration and benefits. The Talent Inventory Review conducted on an annual basis constitutes an important part of the Group's HR policy. The process enables identification of persons critical to respective processes together with their potential replacements, who are being prepared to take over relevant key positions through a cycle of training and development programs. With this process, the Group is able to ensure continuity of staffing of the key positions.

The Group uses a corporate insurance program in order to reduce operational risk exposure. Under the program, losses exceeding defined limits are covered by corporate insurance.

Monitoring and reporting

Risk and Capital Management Committee, supported by Commissions, is accountable for ongoing monitoring of operational risk. Detected issues, corrective actions, operational events and operating risk indicators are subject of regular reports, submitted to relevant Committees.

Quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units of the Capital Group are subject of inspections and assessment carried out by the internal audit.

Operational Risk reports, regularly presented to the respective Committees and Commissions cover data allowing monitoring of the Bank's operational risk profile:

- Results of internal and external audits,
- Self-Assessment Results,
- Results of Key Risk Indicators (KRI) monitoring,
- Operational Risk Events (operational losses), also in comparison to revenues for major business units of the Bank,
- Information about Control Issues and CAPs,
- COB and Information Security – updates and issues,
- Results of compliance risk monitoring
- Analysis of claims
- Capital requirements,
- Stress Tests
- Information and events that may considerably increase operational risk exposure or may lead to considerable operational losses.

Within the consolidated oversight over the Bank and subsidiaries, operational risk data is presented to Commissions and Committees, supporting Management and Supervisory Board in operational risk management process.

Appetite/tolerance for operational risk

Operational risk appetite/tolerance for operational risk (defined in Recommendation M), are terms used jointly to define overall risk level, which Bank is ready and willing to accept a priori (risk appetite) and also factual limits within the appetite (tolerance for operational risk).

In line with the applied standards, Bank maintains limited level of tolerance for residual operational risk. Group's organizational units are obliged to identify and mitigate operational risk through effective control processes. In areas requiring specialized knowledge, Bank established centralized units, managing processes generating considerable operational risk exposure. Operational risk generated in manual processes is mitigated through automations and technical solutions.

Appetite/tolerance for operational risk and tolerance limits are monitored by unit responsible for operational risk management on a quarterly basis. Results of the monitoring are reported to BRCC Commissions and committees supporting Management Board and Supervisory Board.

Target operational risk profile, considering scale and structure of operational risk

Operational Risk Profile – scale and structure of exposure to operational risk, defining the level of exposure to operational risk, expressed in selected by the Bank structural measures (e.g. types of operational risk events, types of business lines, significant processes) and scale measures (e.g. assessed potential loss). Bank defines operational risk profile based on operational loss data and based on information gathered through utilized operational risk management tools.

Stress tests

Operational Risk stress tests are conducted annually, unless the ongoing monitoring of the level of exposure to operational risk shows deterioration, resulting in the need for further testing.

Financial result risk

The risk of financial results is defined as the volatility of financial results which cannot be conclusively attributed to the other risks identified by the Bank and covered in the calculation of capital requirements and internal capital.

The risk is managed by the Group through proper planning including negative political and economic scenarios for the country.

The Group conducts stress tests for the budget, which include the impact on the income statement of stress test results for all risks (credit losses, operational losses, etc.) and stress test results for the Group's revenue.

Equity management

According to the Banking Act, banks in Poland are obliged to maintain equity at a level adequate for their specific business risks.

The Group's equity amounted to PLN 7.3 bn as of 31 December 2013 (as of 31 December 2012: PLN 7.4 bn). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4.9 bn (as of 31 December 2012: PLN 5.0 bn) Such capital level is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

In 2008, the Group launched the process of estimating internal capital. The Group identified significant risks and assessed the capital required for coverage of these risks.

The Bank determines a policy of future dividend payment to the shareholders as part of the capital management process. The dividend policy depends on a number of factors including the Bank's profits, the Bank's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

Financial data necessary to calculate the Group's capital adequacy ratio is presented in the table below:

Capital adequacy ratio*

PLN '000	2013	2012
I. Own funds in total, including:	**4,908,707**	**5,010,491**
Reduction of basic and supplementary funds		
investments in financial entities	7,814	15,110
intangible assets, including:	1,417,363	1,379,931
goodwill	1,245,976	1,245,976
II. Risk-weighted assets and off-balance-sheet commitments (bank portfolio)	**19,195,350**	**20,150,725**
III. Total capital requirements, including:	**2,246,769**	**2,220,164**
credit risk capital requirements (II*8%)	1,535,628	1,612,058
counterparty risk capital requirements	80,127	95,648
capital requirements for excess of exposures' concentration limit and large exposures' limit	95,500	48,024
total market risk capital requirements	156,778	78,194
operational risk capital requirements	363,336	366,893
other capital requirements	15,400	19,347
Capital adequacy ratio (I/(III*12,5))	17.5%	18.1%

**Capital Adequacy Ratio was calculated according to the rules stated in Resolution No 76/2010 of the Commission for Banking Supervision dated 10 March 2010 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 2. item 11 as amended).*

In 2013, as well as in 2012, the Group complied with all the regulatory prudential standards on capital adequacy.

Signatures of Management Board Members

Date	Name	Position/function
13.03.2014	**Sławomir S. Sikora**	President of the Management Board
13.03.2014	**Brendan Carney**	Vice-President of the Management Board
13.03.2014	**Barbara Sobala**	Vice-President of the Management Board
13.03.2014	**Misbah Ur-Rahman-Shah**	Vice-President of the Management Board
13.03.2014	**Witold Zieliński**	Vice-President of the Management Board Chief Financial Officer
13.03.2014	**Iwona Dudzińska**	Member of the Management Board

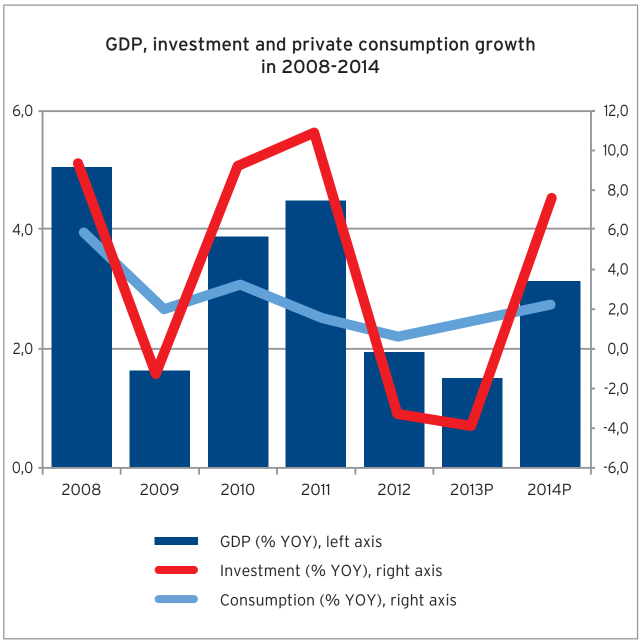
Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2013

Contents

I. Poland's economy in 2013

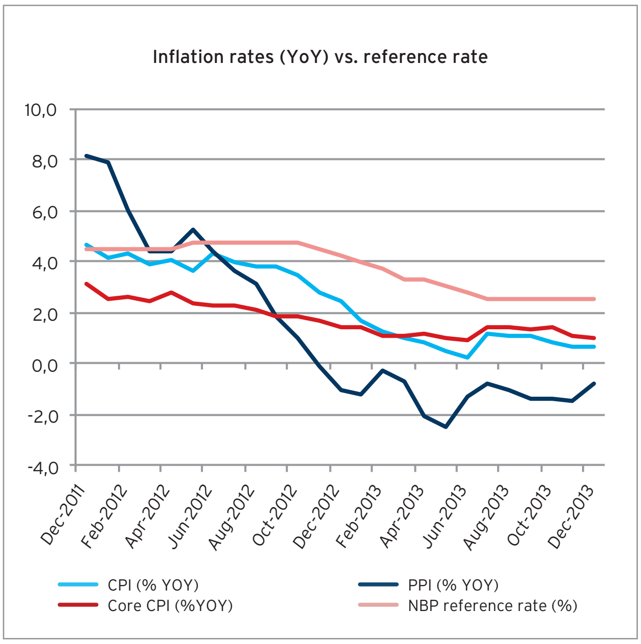
1. Main macroeconomic trends

In 2013, Gross Domestic Product (GDP) rose 1.5% year on year, as compared to a 1.9% increase in 2012. The lowest growth rate was recorded in Q1, 2013 and the economy started to accelerate in the following quarters. For industrial output, the annual growth rate increased to 2.4% in 2013 from 1.4% in 2012, mainly due to new domestic and export orders – the latter in the wake of recovery in the core target markets (especially Germany). Despite this, the average growth rate of exports was declining over 2013 for the third consecutive year – this time to about 4.7% from 6.0% in 2012. However, import slowdown was again deeper – in 2013 imports declined 0.7%, as compared to a 2.4% increase in 2012, mainly as a result of still weak domestic demand. In consequence, the balance of trade improved considerably, reaching the all-time surplus, whilst the current account deficit dropped to a record breaking low level of below 2.0% GDP, from 3.5% in 2012.



Source: Chief Statistical Office, own calculations

The labor market was rather weak in the beginning of the year, though later on the situation was continuously improving in the wake of recovery in the economy, which amplified the demand for labor, but without triggering any significant wage pressure. The employment growth rate in the companies sector increased from -0.8% in January to 0.3% in December, although the annual average employment level declined 1% as compared to the previous year, and a 0.1% increase in 2012. Simultaneously, the average growth rate of wages in the companies sector slowed down to 2.9% from 3.4% in 2012. As of 31 December 2013, the unemployment rate remained flat compared to 2012 year end, after a short-lived peak of 14.3% in March. In addition, the labor productivity growth rate rose to 3.4% in 2013 from 1.3% in 2012, while unit labor costs declined 0.5%, as compared to a 2.1% increase in the previous year, which softened inflationary pressure.



Source: National Bank of Poland, own calculations

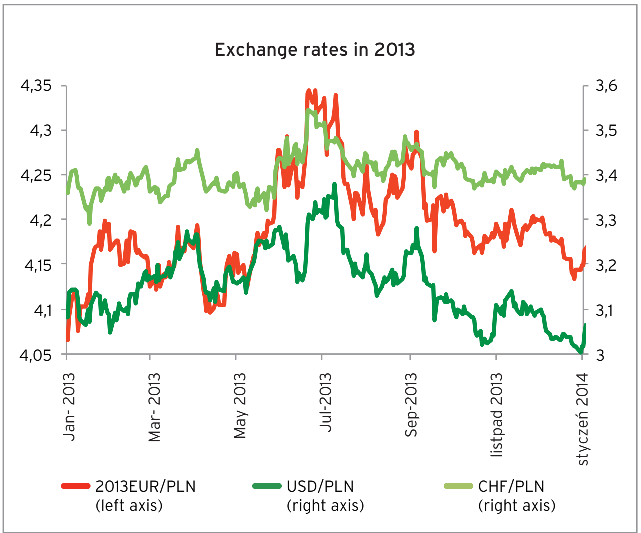
In 2013, the consumer price index rose 0.9%, on average, from 3.7% in 2012, i.e. it was significantly below the inflation target (2.5%). The slower annual growth of prices was mainly observed for fuel, communications, energy, food and education services. During the year, the inflation rate dropped to a record low of 0.2%, bouncing back in the following months to reach 0.7% in December 2013. Average core inflation (i.e. net of food and energy) amounted to 1.2% in 2013, as compared to 2.2% in 2012, and reached 1.1% at 2013 year end, after first falling down to 0.9%.

As the inflation rate fell significantly below the inflation target of the National Bank of Poland and GDP was still weak, below the potential rate of growth, the Monetary Policy Council decided to uphold its dovish stance and cut the interest rates by 175 basis points in total during 2013, to a record low level. The Monetary Policy Council ended the easing cycle by reducing the reference rate to 2.5% in July 2013.

2. Money and forex markets

In 2013, the zloty slightly depreciated relative to major currencies after some fears intensified about the possible impact of Fed's decision to trim down its asset purchase program on emerging market assets. Despite the fact that the fears about further developments the eurozone had alleviated and the condition of Poland's economy had started to improve gradually, the Polish currency was slowly going down in the first half of 2013. The key reasons were the interest rate cuts in Poland and Fed's announcement of intent to start downsizing its asset purchase program, which led to departure of part of portfolio investments from the bonds market. As a result, the zloty hit its 2013 low versus the euro of about 4.33 in June 2013. Then, the pace and size of the zloty's depreciation induced the National Bank of Poland to start its successful intervention in the FX market to moderate the volatility of Poland's currency. The depreciation of the zloty was rather small, as compared to parallel currency movements in other emerging markets, as a result of a considerable reduction of Poland's current account deficit and short-term foreign debt in previous quarters, relatively high real interest rates and well-established commercial relationships with the eurozone, which enjoyed improving outlooks. In the second half of 2013, the zloty was catching up on its previous decline, supported by the continuously improving performance of Poland's economy, with limited sensitivity to turbulences in foreign markets. Consequently, the EUR/PLN rate reached the level of 4.15 as of 2013 year end, as compared to 4.07 at 2012 year end. Concurrently, the USD/PLN rate declined to 3.02 from 3.08 as of the end of 2012.

The series of interest rate cuts translated into a decline of the 3M WIBOR rate to 2.71% as of 2013 year end (from 4.13%). The bonds market entered the year 2013 relatively stable, however yields dropped in the second quarter after a surprising decision of the Bank of Japan to ease its monetary policy even further. Nonetheless, the rest of the year saw an increase in bond yields after the Polish Monetary Policy Council ended its easing cycle and in connection with Fed's announcement that it would trim down the asset purchase program, which triggered an outflow of foreign capital from the bonds market. An additional factor that gave long-term yields a boost was the improving outlooks for the U.S. and eurozone economies and raising bond yields in the major markets. By the end of 2013, the yield of 2-year Treasury bonds dropped to 3.03%, from 3.08% as of 2012 year end, while 10-year Treasury bonds recorded an increase to 4.35% from 3.73%, respectively. Simultaneously, as of the end of 2013, the CDS rate, which reflects how the markets perceive Poland's creditworthiness, remained unchanged from 2012 year end, i.e. amounted to 79 basis points.



Source: National Bank of Poland, own calculations

3. Capital market

The year 2013 was a period of variable investor sentiment in Poland's equity market. The year start was by no means optimistic because of the debt crisis in Cyprus, a considerable supply of stocks in the domestic banking sector and the uncertainties triggered by the changes proposed for the segment of open pension funds. The next quarters turned out to be more encouraging, with low interest rates (increasing the attractiveness of equity instruments and funds exposed to the stock market versus deposits), continued quantitative easing by Fed and macroeconomic data heralding a recovery in Poland's economy as key contributors.

The main indices revealed that the investors active on the Warsaw Stock Exchange ("WSE") had polarized in terms of sentiment. The "blue chips" index declined 7.0% throughout 2013, while the small and medium-sized enterprises delighted with excellent returns, exceeding 30% YoY (sWIG80 rose 37.3% and mWIG40 by 31.1%). Simultaneously, WIG (i.e. the broadest market index) gained 8.1% from 2012 year end.

At the level of sector indices, the commodity companies index (the growth leader in 2012) was under the biggest pressure, losing 32.1%. The food and fuel sectors were also among the unfortunate performers with their indices falling by 11.4% and 10.0%, respectively. On the other hand, the construction sector saw a considerable recovery, gaining 33.5%. The media sector also generated a fat return of 31.0% as compared to the end of 2012.

In the year 2013, and especially in its second half, some signs of revival were observed in the primary and IPO market. A total of 23 new companies entered the WSE main market (of which 7 were transferred from the New Connect market). Public offerings exceeded PLN 5.1 billion in 2013 (as compared to PLN 3.4 billion in 2012), with 75% of that amount generated by two issues: PKP Cargo and Energa. On the other hand, 12 companies were delisted in 2013 and, as a result, there were 448 companies listed on the WSE as of the end of 2013.

The market capitalization of all the companies listed on the WSE main market increased by about 15%, to PLN 841 billion, over the last 12 months, with the local companies' share equal to 71% (unchanged from 2012).

Stock market indices, as of 31 December 2013

Index	2013	Change (%)	2012	Change (%)	2011
WIG	51,284.25	8.1%	47,460.59	26.2%	37,595.44
WIG-PL	52,377.63	9.8%	47,709.64	28.2%	37,217.06
WIG-DIV	1,131.43	2.5%	1,103.30	22.2%	903.09
WIG20	2,400.98	(7.0%)	2,582.98	20.4%	2,144.48
mWIG40	3,345.28	31.1%	2,552.54	17.4%	2,173.89
sWIG80	14,336.82	37.3%	10,443.68	22.9%	8,496.54
Sector sub-indices					
WIG-Banks	8,014.15	20.5%	6,648.51	22.6%	5,421.04
WIG-Construction	2,257.09	33.5%	1,690.66	(30.9%)	2,445.10
WIG-Chemicals	11,645.90	20.6%	9,658.35	57.9%	6,117.02
WIG-Developers	1,486.67	2.8%	1,446.06	9.6%	1,319.94
WIG-Energy	3,453.73	(7.9%)	3,748.02	(2.7%)	3,850.58
WIG-IT	1,363.92	21.9%	1,118.85	3.7%	1,079.26
WIG-Media	3,476.78	31.0%	2,654.07	7.8%	2,461.89
WIG-Fuel	3,215.11	(10.0%)	3,571.11	39.1%	2,567.58
WIG-Food	3,249.28	(11.4%)	3,666.41	5.3%	3,481.45
WIG-Commodities	4,118.45	(32.1%)	6,063.70	78.9%	3,388.75
WIG-Telecoms	1,005.35	(9.1%)	1,106.15	(21.2%)	1,403.12

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

Value of trading in shares and bonds, volume of trading in derivatives on WSE, as of 31 December 2013

	2013	Change (%)	2012	Change (%)	2011
Shares (PLN million)*	512,293	26.3%	405,760	(24.3%)	536,276
Bonds (PLN million)	3,305	58.5%	2,085	24.7%	1,672
Futures ('000 contracts)	23,612	11.5%	21,185	(27.5%)	29,218
Options ('000 contracts)	1,617	13.0%	1,431	(20.3%)	1,796

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

In 2013, turnover in the equity market significantly increased, i.e. by over 26% from 2012, and exceeded PLN 512 billion. Even so, the activity of equity investors was still 4% below the record turnover levels reached in 2011.

When it comes to the main capital market segments, the highest growth, in terms of turnover, was achieved by the debt market. In 2013, the turnover in debt instruments amounted to PLN 3.3 billion and was 58.5% higher than in 2012.

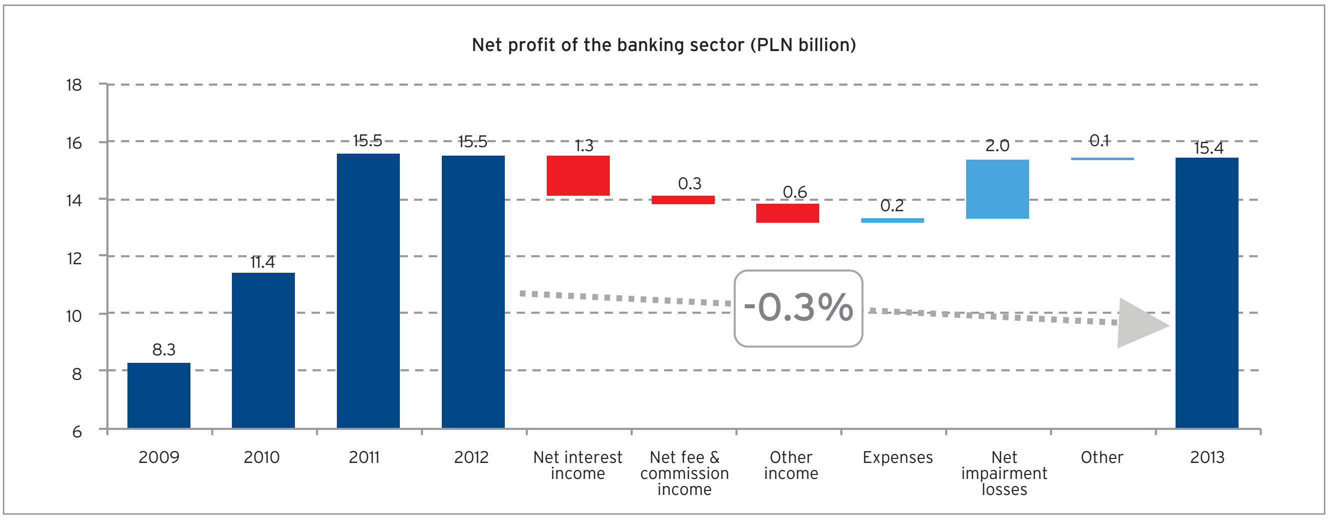
In 2013, investors again showed more interest in derivatives. The volume of derivative contract transactions rose 11.5%, as compared to 2012, to PLN 23.6 million. Over 1.6 million options were traded during 2013 (i.e. 13% more than in the previous year).

4. Banking sector

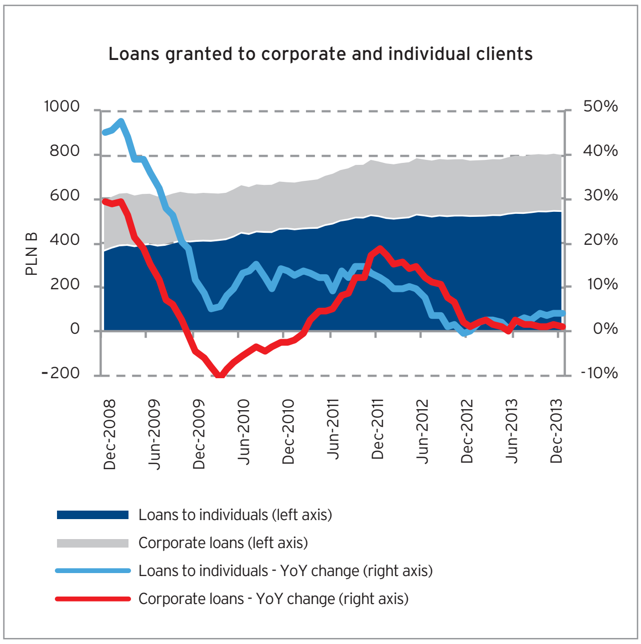
In 2013, the net profit of the banking sector fell 0.3%, or PLN 41 million, from the previous year. The primary detractor was net interest income, which was lower by 3.8%, or PLN 1.3 billion, as compared to 2012, as a result of sharp interest rate cuts. A decline in net fee and commission income (by 2.3%, or PLN 0.3 billion, from 2012) and other banking activity income (by 6.6%, or PLN 0.6 billion, from 2012) reinforced the negative trend event further. Consequently, the total revenues of the banking sector fell 3.9% to PLN 57.3 billion. Impairment write-offs lower by 20.1% (or PLN 2.0 billion) and a slight decline in costs, by 0.6% (or PLN 0.2 billion), from the previous year, positively contributed to the net result of the whole banking sector. The impairment write-offs decline was driven by the improving quality of the loan portfolio, especially consumer loans with a declining trend of the non-performing loan (NPL) ratio (a decrease by 2.6 percentage points to 14.7% as of the end of 2013). As a result, and despite a deteriorating quality of the mortgage portfolio (where the NPL ratio increased by 0.3 percentage points to 3.1%), the NPL ratio for household loans was improving step by step to 7.1%, from 7.5% in January 2013). The NPL ratio for corporate loans dropped to 9.3% in December 2013 (i.e. by 0.5 percentage points year on year), while the NPL ratio for the portfolio of small and medium-sized enterprises remained unchanged at 13.0%.

The sector effectiveness measured by the cost-to-income (C/I) ratio deteriorated. The C/I ratio rose from 50.9% in 2012 to 52.7% in 2013.

The growth rate for loans to non-financial sector gradually recovered during 2013 to reach 3.1% (i.e. an increase by PLN 27.0 billion) by 2013 year end. Loans grated to corporate clients rose 1.3% over 2013 to reach PLN 252.8 billion at 2013 year end. In terms of loan purpose, facilities granted to corporate clients showed a strong shift in trend towards capital expenditure credits, which rose 8.5% (or PLN 6.6 billion) to PLN 83.9 billion during 2013, coupled with the growth of loans with original time to maturity over 5 years by 2.6% (or PLN 3.0 billion) to PLN 117.2 billion.

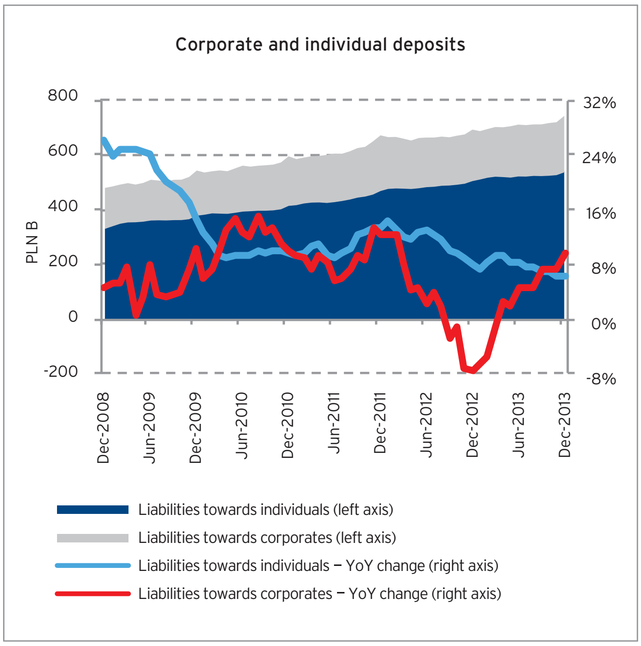


Source: KNF, own calculations



Source: NBP, own calculations.

Loans to individuals also expanded in terms of volume, by 3.9% (or PLN 17.3 billion) to PLN 466.6 billion. It should be Noted that that increase was the combined effect of both the recovery of mortgage loans (an increase by 4.5%, or PLN 14.3 billion, from the previous year to PLN 334.2 billion) and the somewhat lower growth of consumer loans (an increase by 2.3%, or PLN 3.0 billion, from the previous year to PLN 132.4 billion). FX rate fluctuations had an insignificant impact on the pace of growth. The growth leader was the PLN mortgage market, which rose 16.5%, or PLN 23.9 billion, from the previous year.



Source: NBP, own calculations.

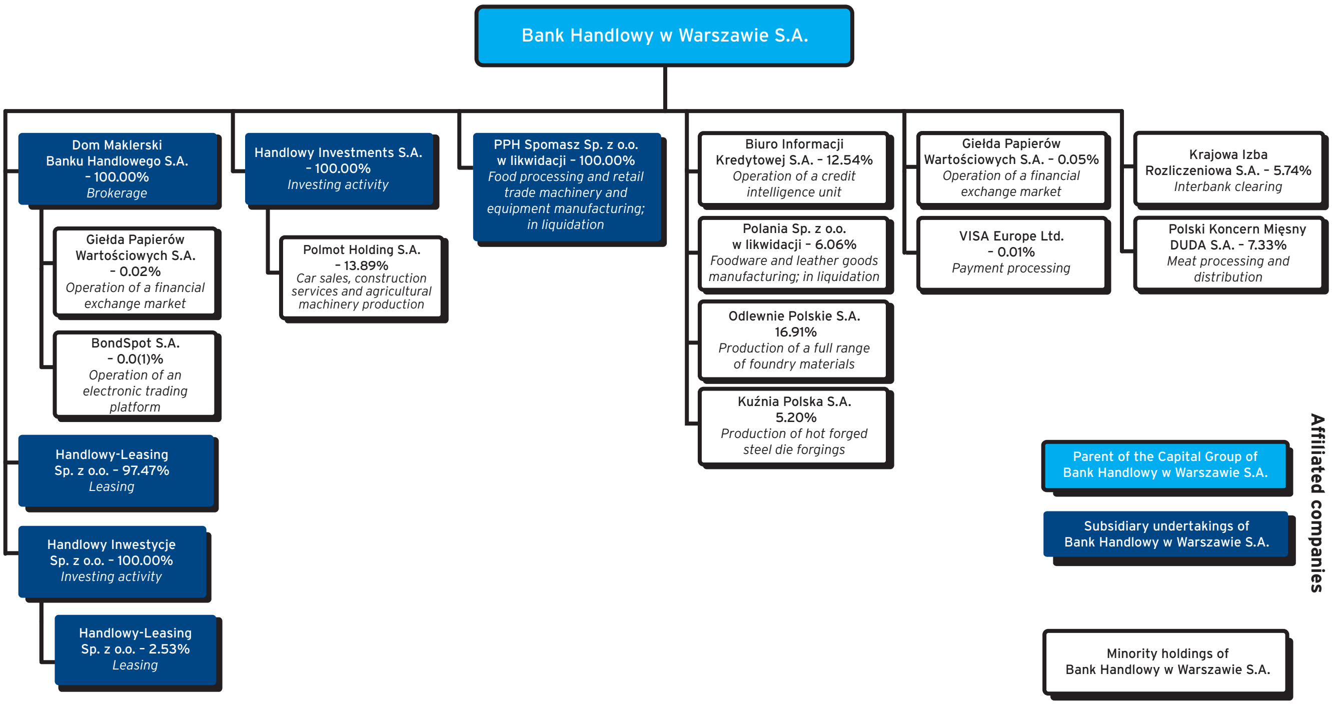
Corporate deposits rose 9.6%, or PLN 18.2 billon, from the previous year, to PLN 208.0 billion. The positive growth rate was maintained since the beginning of Q3, 2013. This translated into higher volumes of both demand deposits (an increase by 13.3%, or PLN 13.2 billion, from the previous year to PLN 112.5 billion) and term deposits (an increase by 5.5%, or PLN 4.9 billion, from the previous year to PLN 95.5 billion).

Noteworthy growth was also achieved in the area of individual deposits, which rose 5.9%, or PLN 27.8 billion, from the previous year to PLN 498.8 billion.

Like in the case of corporate deposits, the above growth was mainly generated by demand deposits (an increase by 18.2%, or PLN 37.3 billion, from the previous year to PLN 242.9 billion), while term deposits went down 3.6%, or PLN 9.5 billion, from the previous year to PLN 255.9 billion, as a result of low interest rates on bank deposits and reallocations of assets to more risky savings instruments.

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 of 31 December 2013; the Bank's share interest in each specified.



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	-	-	7,221,222*
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	118,911
Handlowy-Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	150,304
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	44,041
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 2013
** 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	10,939

** Including indirect participations
*** Pre-audit data.

On 26 July 2013, shares in Handlowy Investmens II S.a.r.l., representing 100% of the share in the capital and 100% of votes at the General Meeting of Shareholders, were sold. The balance value of sold shares amounted PLN 5,532 thousand.

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

1. Major Developments in 2013

In 2013, despite a challenging market environment (slowdown in the economy, historically low interest rates), Citi Handlowy generated **the highest consolidated net profit since the Bank made its debut on the Warsaw Stock Exchange, i.e. 1997.** The Group's net profit for 2013 amounted to **PLN 972.7 million**, and without the restructuring provision, which lowered the Q4 results (more information on the provision on page 100 in this report), net profit was **PLN 1,022.5 million.**

In the past year, the Group was focused on the strategic areas, which is confirmed by the following achievements and events:

- **High efficiency** – key efficiency ratios were kept at a high level, above the sector averages:
  - Return on Assets (ROA) was 2.1% versus 1.1% for the sector;
  - Return on Tangible Equity (ROTE) was 19.0% versus 10.5% for the sector;
  - Cost / Income ratio (excluding the restructuring provision) was 51% versus 53% for the sector.
- **Sustained consistent cost control** – general and administrative expenses and depreciation declined by 4.5% in 2013 (or 8.9% excluding the restructuring provision created in Q4, 2013);
- Another year of significant **improvement in the area of credit risk**, mainly as a result of improved quality of the credit portfolio and two transactions of non-performing loans' sales in the Consumer Bank sector:
  - credit risk costs (calculated as proportion of net impairment losses to net loans to non-financial sector) were 0.3% (versus -0.4% in 2012 and -0.9% in the sector);
  - improved NPL (non-performing loans) ratio – from 7.5% in 2012 to 7.0% at 2013 year end;
- **Transformation for innovation:**
  - Development of the **Smart Banking Ecosystem**, assuming a refocus from traditional branches onto leading-edge Smart outlets, situated where the Bank's clients are present, and utilization of most advanced technologies to make contacts with the Bank easier (mobile and online solutions). As of 2013 year end, the branch network of Citi Handlowy already included two Smart outlets – in Warsaw and Katowice.
  - **Relationship banking** for individual customers: consistent growth of demand deposits (+23% YoY versus 18% YoY in the sector) thanks to focus on active clients – the number of active CitiGold customers rose by 25% YoY and the acquisition of CitiForward customers increased by 84% YoY;
- Leader in the area of **financial markets:**
  - Citi Handlowy was ranked first in the **FX market transactions** with corporate clients, for the fifth consecutive year, according to the prestigious Euromoney magazine (with a 36% market share, i.e. higher by 8 percentage points YoY);
  - DMBH was the leader of the **capital market** in terms of turnover in the equity secondary market, with a 13% market share; value of capital acquired via IPO and SPO transactions, with a market share exceeding 15%; turnover in non-Treasury bonds in all Catalyst markets (with a 30% market share);
  - Winner of the prestigious ranking of the Ministry of Finance for **Treasury Securities Dealers** in 2014 (for the second consecutive year);
  - **Custody operations** – Citi Handlowy was the leader in the custodian banks market in Poland, with 49% market share in assets under custody;
- Achievements in **transactional services**:
  - Ranked second in Poland in the transactional services ranking: Euromoney Cash Management Survey 2013;
  - Demand deposits rose by 20% YoY (versus 11% in the sector), as a result of consistent concentration on operating accounts;
  - Expansion in the trade finance area: factoring turnover up by 26% YoY and trade finance assets up by 21% YoY; development of innovative technology solutions (Citi Trade Portal platform).
- Development of the **global product range** for customers:
  - Emerging Markets Champions – a program for local corporate clients and global clients to ensure them any support and financial services required for their expansion into international markets. At 2013 year and, the Bank served more than 270 customers under the program (of which 241 global clients investing in Poland with Citi Handlowy, e.g. Hyundai and Mando, and 31 local corporate customers investing globally with Citi Handlowy, e.g. KGHM, Maspex or Polpharma);
  - New global services for individual customers: accounts opened within Citi in other countries, Citi Global Transfers outgoing, program of privileges available globally, a debit card linked with foreign currency accounts, services for global investors: FX dealer by the phone, a new CitiFX Pro investment platform, investment advice for offshore funds;
- Another year of **lending growth** in the Commercial Bank segment (+9% YoY) and the loan portfolio of individual customers (credit card loans: +3% YoY; mortgage loans: +15% YoY);
- Top **quality** of services provided by the Bank, confirmed by independent rankings – the first place in the independent customer satisfaction survey NPS (Net Promoter Score) for CitiGold customer service, carried out by TNS Polska, and the third place in Newsweek's "Friendly Bank for Traditional Customers" ranking;
- Maintenance of **safe and stable capital and liquidity situation:**
  - Loans to deposits ratio at 64%,
  - Capital adequacy ratio at 17.5%;
- **High return for shareholders** – in 2013, the Bank offered the highest dividend yield (basing on dividend paid in 2013) among Polish banks listed on the Warsaw Stock Exchange. Including the dividend yield, Citi Handlowy delivered 14% return on investment in its shares.

In 2013, the Bank was again included in the RESPECT Index, i.e. a WSE index of the companies that are most committed to the society. Citi Handlowy is one of only two banks incessantly included in the index from its first edition.

2. Summary financial data of the Group

PLN million	2013	2012
Total assets	45,398.4	43,508.8
Equity	7,307.3	7,391.4
Loans*	15,231.3	16,221.4
Deposits *	26,084.7	23,629.7
Net profit	972.7	970.1
Capital adequacy ratio	17.5%	18.1%

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

3. Financial results of the Group in 2013

3.1. Income statement

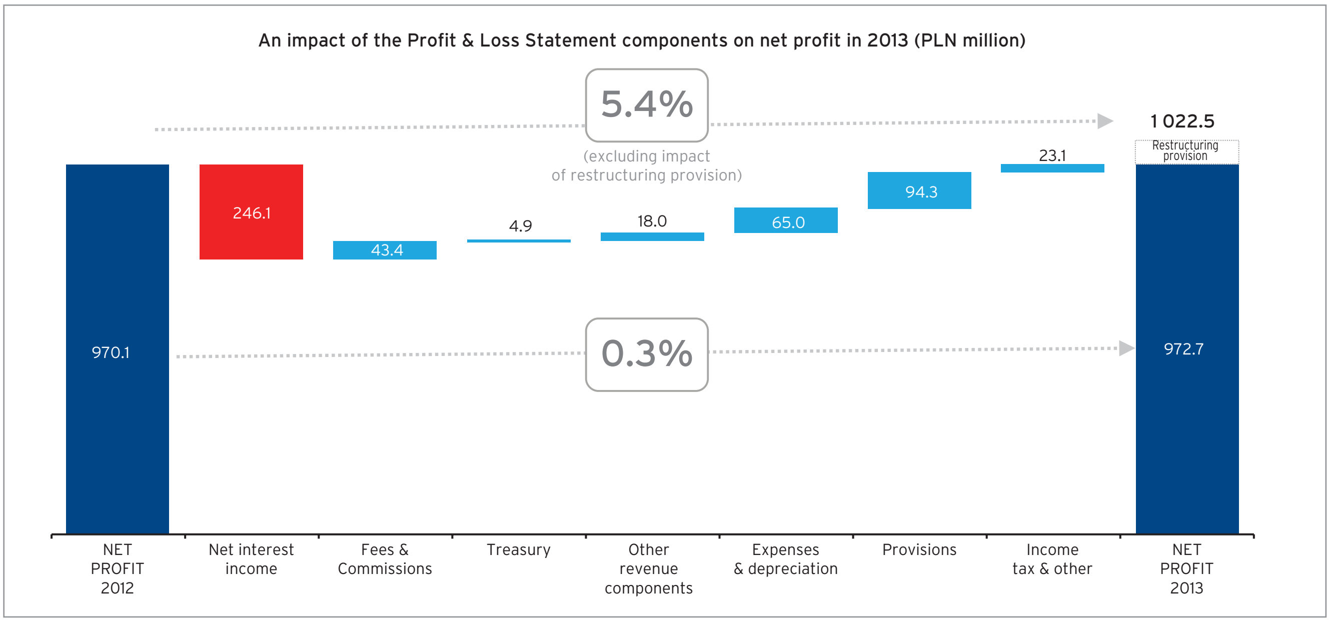
In 2013, the Group posted a consolidated net profit of PLN 972.7 million, representing an increase of PLN 2.6 million (i.e. 0.3%) compared to the net profit for 2012. The 2013 consolidated profit before tax of PLN 1,218.1 million decreased by PLN 21.4 million (i.e. 1.7%) as compared to the previous year.

In the fourth quarter of 2013 the Bank established a restructuring provision amounting to PLN 62.4 million (for more information on the provision see page 100 of this report). Excluding the restructuring provision, the Bank's costs dropped by PLN 127.4 million (i.e. 8.9%) compared to 2012 and the Group's net profit in 2013 increased to PLN 1,022.5 million, i.e. by PLN 52.4 million (i.e. 5.4%) versus the net profit generated in 2012.

Selected income statement items

PLN '000	2013	2012	Change	
			PLN '000	%
Net interest income	1,242,152	1,488,281	(246,129)	(16.5%)
Net fee and commission income	642,302	598,858	43,444	7.3%
Dividend income	4,416	6,493	(2,077)	(32.0%)
Net gains on financial instruments held for trading and on revaluation	349,000	371,993	(22,993)	(6.2%)
Net gains on investment debt securities	305,339	279,451	25,888	9.3%
Net gains on investment equity instruments	1,844	-	1,844	-
Net gain on hedge accounting	2,050	-	2,050	-
Net other operating income	(242)	(18,430)	18,188	(98.7%)
Total income	2,546,861	2,726,646	(179,785)	(6.6%)
Overheads and general administrative expenses and depreciation, including	(1,364,643)	(1,429,634)	64,991	(4.5%)
Overheads and general administrative expenses	(1,302,008)	(1,364,951)	62,943	(4.6%)
Depreciation/amortization of tangible and intangible fixed assets	(62,635)	(64,683)	2,048	(3.2%)
Net gains on sale of other assets	1,050	84	966	1150.0%
Net change in impairment losses	36,204	(58,101)	94,305	-
Share in net profits/(losses) of entities valued by equity method	(1,326)	540	(1,866)	-
Profit before taxation	1,218,146	1,239,535	(21,389)	(1.7%)
Income tax expense	(245,438)	(269,403)	23,965	(8.9%)
Net profit for the year	972,708	970,132	2,576	0.3%

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



The increase in net profit in 2013 when compared to 2012 was mainly driven by the following:

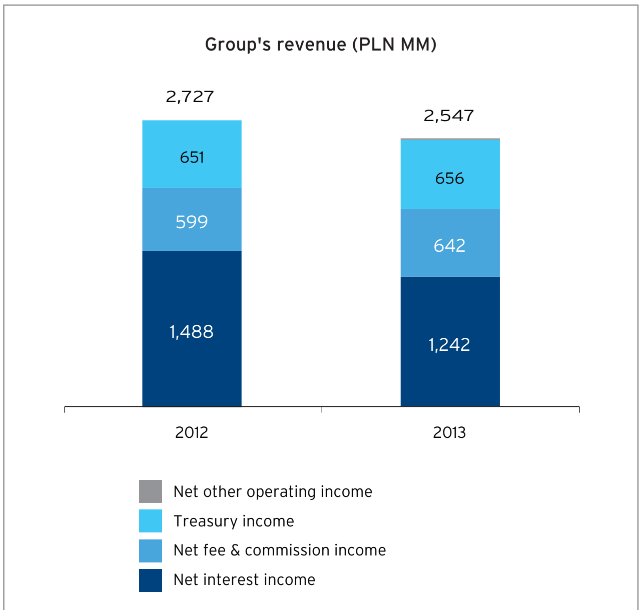
- Operating income (which includes net interest income, net fee and commission income, dividend income, net gains on trading financial instruments and revaluation, net gains on investment debt securities, net gains on investment equity instruments, net gains on hedge accounting and net other operating income) of PLN 2,546.9 million in 2013 compared to PLN 2,726.6 million in 2012 – a decrease by PLN 179.8 million (i.e. 6.6%) primarily due to the decline in the net interest income. On the other hand, the net fee and commission income and Treasury result increased;
- general administrative and depreciation expenses of PLN 1,364.6 million versus PLN 1,429.6 million in the previous year – a decrease of PLN 65.0 million (i.e. 4.5%) primarily as a consequence of lower staff expenses, lower spending on marketing and advertising as well as lower advisory services' costs. Additionally, the restructuring provision of PLN 62.4 million is included in 2013 expenses (for more information on the provision please go to page 100 of this report);
- reversal of net impairment losses of PLN 36.2 million versus net impairment losses of PLN 58.1 million in 2012 – improvement by PLN 94.3 million, mainly in the Consumer Banking segment, where loan portfolio continued to improve and was broadly matched by releases of provisions.

3.1.1 Revenue

Operating income was PLN 2,546.9 million in 2013 compared to PLN 2,726.6 million in the previous year, representing a decrease by PLN 179.8 million or 6.6%.

In 2013, operating income was affected by:

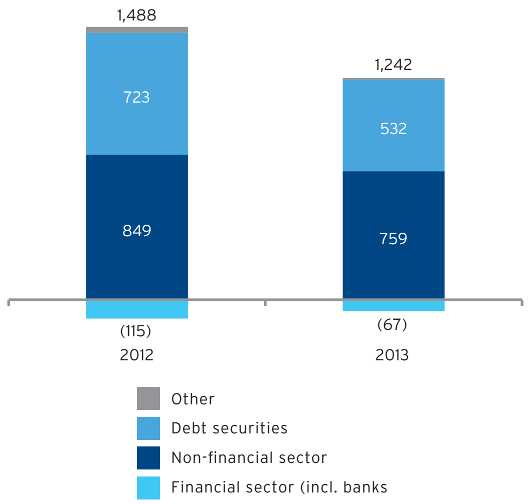
- net interest income of PLN 1,242.2 million compared to PLN 1,488.3 million recorded in 2012 – decrease of PLN 246.1 million, i.e. 16.5%, following a significant reduction in base interest rates (by 225 basis points) to a historic low level. Consequently, interest income from amounts due from customers declined by PLN 217.3 million (i.e. 17.2%), which was partially offset by a lower of interest expense (down by PLN 149.7 million, i.e. 30.1%). A significant drop in interest income was also recorded for debt securities portfolio – in total by PLN 190.8 million, i.e. 26.4%, for debt securities available-for-sale and debt securities held-for-trading;



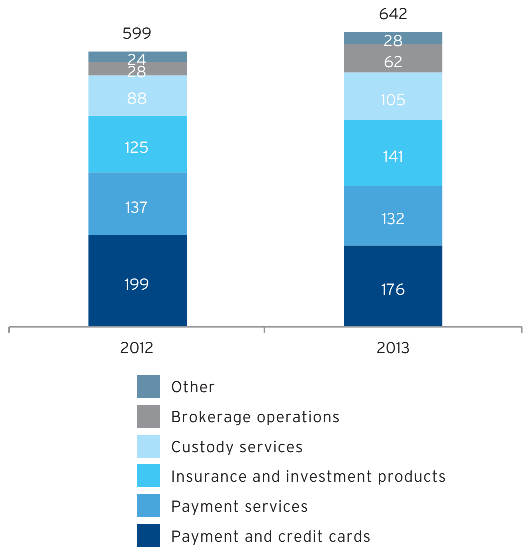
- net fee and commission income of PLN 642.3 million versus PLN 598.9 million in 2012 – increase of PLN 43.4 million, i.e. 7.3%, driven mainly by capital markets, i.e. brokerage activity and custody services as well as sale of investment and insurance products. Higher fee on brokerage activity resulted from DMBH's participation in capital market transactions (among others, the accelerated sale of stake in Bank Pekao S.A. and PKO Bank Polski S.A.; secondary public offering of BZ WBK S.A., IPO of Energa S.A.) and was also due to the increased value of session equity transactions and block trades made by DMBH on the Warsaw Stock Exchange – up by 30% YoY. In the Consumer Banking segment the fee and commission income from insurance and investment products increased (up by PLN 15.9 million, i.e. 12.8%) due to the increased interest in investment products among customers, which partially offset the decrease in fee income resulting from the reduction in interchange rates by card organizations starting from January 2013;
- net income on trade financial instruments and revaluation of PLN 349.0 million versus PLN 372.0 million recorded in 2012, i.e. down by PLN 23.0 million, principally reflecting lower income on the interbank market operations;

- net gain on investment debt securities of PLN 305.3 million versus PLN 279.5 million in 2012, i.e. an increase of PLN 25.9 million, stemming from the realized gains in favorable conditions on the domestic debt market;
- net other operating income of PLN -0.2 million compared to PLN -18.4 million in 2012 – an improvement of PLN 18.2 million.

Net interest income (PLN MM)



Net fee and commission income (PLN MM)



3.1.2 Expenses

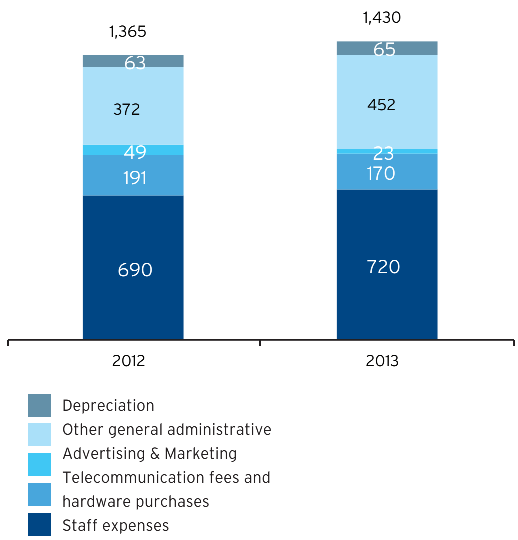
General expenses & depreciation

PLN'000	2013	2012	Change	
			PLN'000	%
Personnel costs	689,625	720,051	(30,426)	(4.2%)
General administrative expenses, including:	612,383	644,900	(32,517)	(5.0%)
Telecommunication fees and IT hardware	191,038	170,003	21,035	12.4%
Building maintenance and rent	101,919	111,841	(9,922)	(8.9%)
Costs of external services, including advisory, audit, consulting services	63,019	81,470	(18,451)	(22.6%)
Total overheads	1,302,008	1,364,951	(62,943)	(4.6%)
Depreciation	62,635	64,683	(2,048)	(3.2%)
Total general expenses & depreciation	1,364,643	1,429,634	(64,991)	(4.5%)

The Bank continued to pursue its cost discipline policy over 2013. Compared to 2012, the Group reported a decrease of general expenses and depreciation by PLN 65.0 million (i.e. 4.5%) primarily as a consequence of lower staff expenses, lower spending on marketing and advertising as well as lower advisory services' costs. At the same time in the fourth quarter of 2013 the Bank established a restructuring provision in connection with the decision about the transformation of the Bank's distribution model into the Smart Banking Ecosystem, which was announced in October 2013, as well as the implementation of changes into the Bank's operating model, leading to employment restructuring and exit from 19 retail branches located outside the target markets for the Bank. The restructuring provision in the amount of PLN 62.4 million included the costs of severance payments for employees to be laid off (PLN 55.2 million) as well as the costs related to early termination of lease agreements and rent due from the moment of branch closure to the end of lease terms (PLN 7.2 million). Excluding the impact of the restructuring provision, in 2013 general administrative expenses and depreciation amounted to PLN 1,302.2 million, i.e. were down by PLN 127.4 million, i.e. 8.9%, compared to 2012.

Depreciation expenses were slightly lower than in the previous year and amounted to PLN 62.6 million in 2013.

General administrative expenses and depreciation (PLN MM)



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

Net impairment and provisions

PLN'000	2013	2012	Change	
			PLN'000	%
Net impairment losses incurred but not reported (IBNR)	28,820	28,514	306	1.1%
Net impairment losses on loans and off-balance sheet liabilities	6,833	(76,993)	83,826	-
accounted for individually	(19,407)	(51,168)	31,761	(62.1%)
accounted for collectively, on a portfolio basis	26,240	(25,825)	52,065	-
Net impairment losses on equity investments	-	(5,092)	5,092	(100.0%)
Other	551	(4,530)	5,081	-
Net impairment losses on financial assets and provisions for financial and guarantee commitments	**36,204**	**(58,101)**	**94,305**	**-**

Net impairment losses on financial assets and provisions for financial and guarantee commitments amounted to PLN 36.2 million in 2013, representing an improvement by PLN 94.3 million compared to PLN -58.1 million in 2012. The improvement resulted mainly from the Consumer Banking segment (reversal of net impairment losses of PLN 62.3 million in 2013 compared to PLN 30.0 million of net impairment losses in 2012), where retail receivables continued to improve and were broadly matched by releases of provisions. Moreover, in 2013 a part of retail impaired exposures was sold: in the second quarter the Bank sold retail impaired exposures (cash loans and credit cards) of value of PLN 148.8 million (98% out of which constituted written-off receivables) for PLN 23.3 million; in the fourth quarter the Bank sold retail impaired exposures (cash loans and credit cards) of value of PLN 99.3 million (98% out of which constituted written-off receivables) for PLN 10.2 million. In the Corporate Banking segment the net impairment losses declined by PLN 2.0 million (from PLN -28.1 million in 2012 to PLN -26.1 million in 2013).

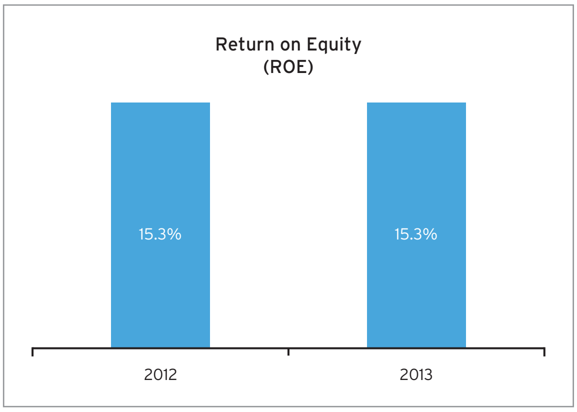
3.1.4 Ratio analysis

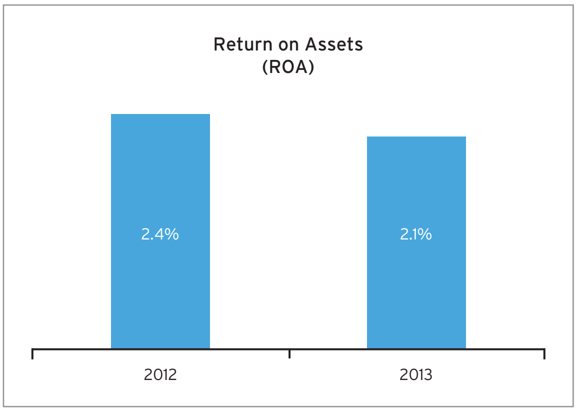
The Group's efficiency ratios

	2013	2012
Return on equity (ROE)*	15.3%	15.3%
Return on assets (ROA)**	2.1%	2.4%
Net interest margin (NIM)***	2.7%	3.7%
Margin on interest-bearing assets	3.2%	4.4%
Earnings per share in PLN	7.44	7.42
Cost/income****	54%	52%
Non-financial sector loans to non-financial sector deposits	64%	73%
Non-financial sector loans to total assets	32%	35%
Net interest income to total revenue	49%	55%
Net fee and commission income to total revenue	25%	22%

* *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 2013 the Bank kept its return on equity ratio (ROE) and return on assets ratio (ROA) at high levels of 15.3% and 2.1%, respectively.





In terms of cost efficiency, the cost to income ratio increased to 54%, however excluding the impact of the restructuring provision, it was 51%, i.e. it improved by 1.3 p.p. compared to the previous year.

Due to the impact of the already mentioned significant reduction in base interest rates in 2013 (in total by 225 basis points), the net interest margin weakened to 2.7% on total assets. Despite the decrease, the net interest margin of the Bank remained better than the margin of the sector amounting to 2.4%.

The Bank continued to maintain safe liquidity and capital adequacy position confirmed by the following ratios: the loan to deposit ratio of 64% and the capital adequacy ratio of 17.5%.

3.2. Consolidated statement of financial position

As of 31 December 2013, the Bank's total assets stood at PLN 45,398.4 million, representing an increase of 4.3% compared to the end of 2012.

Consolidated statement of financial position

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
ASSETS				
Cash and balances with central bank	778,464	1,357,308	(578,844)	(42.6%)
Receivables from banks	3,539,927	1,461,901	2,078,026	142.1%
Financial assets held for trading	5,751,829	6,838,483	(1,086,654)	(15.9%)
Debt securities available-for-sale	17,616,041	15,003,003	2,613,038	17.4%
Equity investments, held at equity value	7,814	15,110	(7,296)	(48.3%)
Equity investments available-for-sale	15,280	19,921	(4,641)	(23.3%)
Receivables from customers	15,231,327	16,221,412	(990,085)	(6.1%)
Property and equipment	384,581	409,916	(25,335)	(6.2%)
Intangible assets	1,417,363	1,379,931	37,432	2.7%
Receivables due to current income tax	80,854	2,702	78,152	2892.4%
Asset due to deferred income tax	203,132	218,786	(15,654)	(7.2%)
Other assets	359,039	567,736	(208,697)	(36.8%)
Non-current assets available-for-sale	12,738	12,554	184	1.5%
Total assets	45,398,389	43,508,763	1,889,626	4.3%
LIABILITIES				
Liabilities towards banks	6,378,436	2,356,429	4,022,007	170.7%
Financial liabilities held for trading	4,196,896	5,846,404	(1,649,508)	(28.2%)
Hedging derivatives	24,710	-	24,710	-
Liabilities towards customers	26,568,765	26,852,165	(283,400)	(1.1%)
Provisions	89,284	28,656	60,628	211.6%
Current income tax liabilities	84	55,343	(55,259)	(99.8%)
Other liabilities	832,950	978,351	(145,401)	(14.9%)
Total liabilities	38,091,125	36,117,348	1,973,777	5.5%
EQUITY				
Issued capital	522,638	522,638	-	-
Supplementary capital	2,997,759	3,011,380	(13,621)	(0.5%)
Revaluation reserve	(42,963)	257,791	(300,754)	-
Other reserves	2,859,388	2,637,066	222,322	8.4%
Retained earnings	970,442	962,540	7,902	0.8%
Total equity	7,307,264	7,391,415	(84,151)	(1.1%)
Total liabilities and equity	45,398,389	43,508,763	1,889,626	4.3%

3.2.1 Assets

Gross receivables from clients

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Non-banking financial entities	734,594	952,385	(217,791)	(22.9%)
Non-financial sector entities	9,503,087	10,377,197	(874,110)	(8.4%)
Individuals	5,819,087	5,920,993	(101,906)	(1.7%)
Public entities	157,909	101,195	56,714	56.0%
Other non-financial sector entities	683	569	114	20.0%
Total gross receivables from clients	16,215,360	17,352,339	(1,136,979)	(6.6%)

In 2013, gross receivables from customers decreased by 6.6% year on year and stood at PLN 16.2 billion. A decrease was reported mainly for non-financial sector entities (down by PLN 0.9 billion or 8.4% year on year) and non-banking financial institutions (down by PLN 0.2 billion or 22.9% year on year). Gross loans issued to individual clients went down in a smaller extent, i.e. by 0.1 billion or 1.7%, with decline reported in the impaired portfolio. At the same time, the net loans granted to individuals went up 0.4% YoY as a result of growth of the mortgage loan portfolio (+15.4% YoY) and credit cards' loans (+3.4% YoY).

Net receivables from clients

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Receivables from financial sector entities	**715,466**	**933,272**	**(217,806)**	**(23.3%)**
Receivables from non-financial sector entities, including:	**14,515,861**	**15,288,140**	**(772,279)**	**(5.1%)**
Corporate clients*	9,232,581	10,027,941	(795,359)	(7.9%)
Individuals, including:	5,283,280	5,260,199	23,080	0.4%
Credit cards	2,222,243	2,150,189	72,054	3.4%
Cash loans of individuals	1,919,308	2,103,643	(184,335)	(8.8%)
Mortgage loans	1,068,199	925,740	142,459	15.4%
Total net receivables from clients	15,231,327	16,221,412	(990,085)	(6.1%)

**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 2.3 billion (or 13.1%) at the end of 2013. This was mainly due to an increased position in Treasury bonds and NBP cash bills. At the same time, there was a drop in bonds issued by banks.

Debt securities portfolio

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Treasury bonds, including:	8,680,192	6,829,474	1,850,718	27.1%
covered bonds in fair value hedge accounting	1,836,219	-	1,836,219	-
Treasury bills	-	2,982	(2,982)	(100.0%)
Bank's bonds	1,402,876	2,705,424	(1,302,548)	(48.1%)
NBP bills	9,748,646	7,997,178	1,751,468	21.9%
Total	19,831,714	17,535,058	2,296,656	13.1%

3.2.2 Liabilities

Liabilities towards customers

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Deposits of financial sector entities	**3,259,867**	**2,794,790**	**465,077**	**16.6%**
Deposits of non-financial sector entities, including	**22,824,846**	**20,834,930**	**1,989,916**	**9.6%**
Non-financial sector entities	11,956,825	11,706,666	250,159	2.1%
Non-commercial institutions	396,577	400,158	(3,581)	(0.9%)
Individuals	6,907,183	5,896,093	1,011,090	17.1%
Public sector entities	3,564,261	2,832,013	732,248	25.9%
Other liabilities	**484,052**	**3,222,445**	**(2,738,393)**	**(85.0%)**
Total liabilities towards customers	26,568,765	26,852,165	(283,400)	(1.1%)
Deposits of financial and non-financial sector entities, including:				
Liabilities in PLN	20,082,062	18,638,783	1,443,279	7.7%
Liabilities in foreign currency	6,002,651	4,990,937	1,011,714	20.3%
Total deposits of financial and non-financial sector entities	26,084,713	23,629,720	2,454,993	10.4%

The main source of funding for the Bank's assets are deposits of non-banking sector clients, which in 2013 increased by PLN 2.5 billion or 10.4%. The growth was driven mainly by higher balances on customer current accounts and it was a result of the Bank's consistent focus on operating accounts. In total, current deposits of non-banking sector customers increased by PLN 3.0 billion (i.e. 21.1%), out of which current deposits of institutional customers grew by PLN 1.9 billion and balances on current accounts of individual customers (predominantly in the area of savings accounts) increased by PLN 1.1 billion. On the other hand, other liabilities towards customers went down by PLN 2.7 billion, i.e. 85.0%, which was due to a decreased repo transactions volume and caused a drop in total liabilities towards customers by PLN 0.3 billion, i.e. 1.1%.

3.2.3 Source and use of funds

PLN '000	31.12.2013	31.12.2012
Source of funds		
Funds of banks	6,378,436	2,356,429
Funds of customers	26,568,765	26,852,165
Own funds with net income	7,307,264	7,391,415
Other funds	5,143,924	6,908,754
Total source of funds	**45,398,389**	**43,508,763**
Use of funds		
Receivables from banks	3,539,927	1,461,901
Receivables from customers	15,231,327	16,221,412
Securities, shares and other financial assets	23,390,964	21,876,517
Other uses of funds	3,236,171	3,948,933
Total use of funds	**45,398,389**	**43,508,763**

3.3 Equity and the capital adequacy ratio

In 2013, the equity remained almost unchanged compared to the end of 2012. With higher reserve capital, general risk reserve and other equity (in total up by PLN 227.6 million) following retention of 25% of the Bank's profit of 2012, and a decrease in the revaluation reserve and supplementary capital (in total down by PLN 314.4 million), the total value of the equity was lower by PLN 86.7 million (or 1.4%) than a year ago.

Equity*

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Issued capital	522,638	522,638	-	-
Supplementary capital	2,997,759	3,011,380	(13,621)	(0.5%)
Other reserves	2,335,307	2,126,900	208,407	9.8%
Revaluation reserve	(42,963)	257,791	(300,754)	(116.7%)
General risk reserve	521,000	507,500	13,500	2.7%
Other equity	815	(4,926)	5,741	(116.5%)
Total equity	**6,334,556**	**6,421,283**	**(86,727)**	**(1.4%)**

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

Capital funds 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 necessary to calculate the capital adequacy ratio based on the Group's consolidated financial statements.

Capital adequacy ratio*

	PLN '000	31.12.2013	31.12.2012
I	**Own funds for the calculation of capital adequacy ratio, including:**	**4,908,707**	**5,010,491**
	Less in core and supplementary funds		
	interests in subordinated financial entities	7,813	15,110
	intangible assets, including	1,417,363	1,379,931
	goodwill	1,245,976	1,245,976
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**19,195,350**	**20,150,725**
III	**Total capital requirements, of which:**	**2,246,769**	**2,220,164**
	credit risk capital requirements (II*8%)	1,535,628	1,612,058
	counterparty risk capital requirements	80,127	95,648
	excess concentration and large exposures risks capital requirements	95,500	48,024
	total market risk capital requirements	156,778	78,194
	operational risk capital requirements	363,336	366,893
	other capital requirements	15,400	19,347
	Capital adequacy ratio (I/III*12.5)	**17.5%**	**18.1%**

** Capital Adequacy Ratio calculated according to the rules stated in Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 2, item 11, as amended)*

As of 31 December 2013, the Group's capital adequacy ratio stood at 17.5% and was 0.6 percentage points lower than the end of 2012. It was driven by increase of total capital requirements by 1% (mainly due to higher market risk capital requirements and excess concentration and large exposures risks capital requirements) along with lower own funds of the Bank (down by 2%).

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2013

1. Lending and other risk exposures

1.1 Lending

The lending policy within the Group is consistent and covers the Bank, as parent company, and its subsidiaries (DMBH and Handlowy-Leasing Sp. z o.o.), excluding special purpose entities (investment vehicles), companies undergoing liquidation or bankruptcy as well as dormant entities. Furthermore, 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 client. Individual borrowers are continuously monitored so that any warning signals of deterioration in creditworthiness can be detected as soon as possible to allow for implementation of appropriate corrective actions.

In 2013, the Group concentrated its credit risk management activities in selected areas to:

- support the growth of assets;
- optimize the lending process and adjust its credit product range to market conditions;
- improve the quality of the credit portfolio;
- intensify collection activities for the portfolio of retail credit exposures;
- ensure the effective allocation of capital;
- improve its processes used for management of risks generated by models (model risk) dedicated to credit risk measurement; and
- continue efforts to develop its credit risk measurement methodologies.

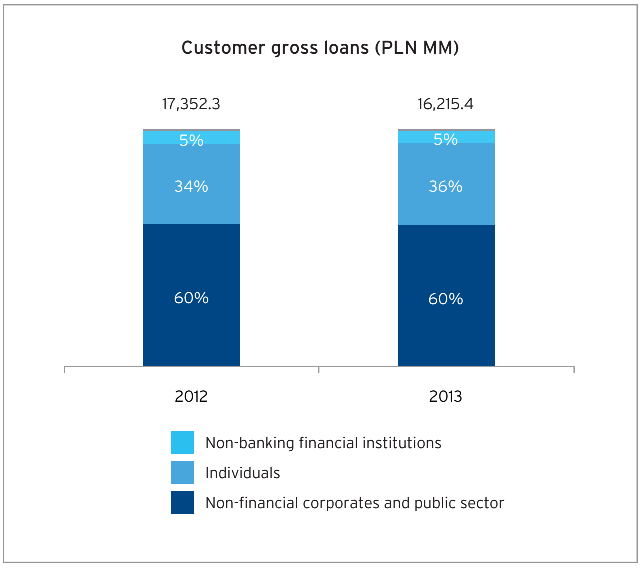
Gross loans to customers

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Loans in PLN	13,393,843	14,720,657	(1,326,814)	(9.0%)
Loans in foreign currency	2,821,517	2,631,682	189,835	7.2%
Total	**16,215,360**	**17,352,339**	**(1,136,979)**	**(6.6%)**
Loans to non-financial sector entities	15,480,766	16,399,954	(919,188)	(5.6%)
Loans to financial sector entities	734,594	952,385	(217,791)	(22.9%)
Total	**16,215,360**	**17,352,339**	**(1,136,979)**	**(6.6%)**
Non-bank financial entities	734,594	952,385	(217,791)	(22.9%)
Non-financial sector entities	9,503,087	10,377,197	(874,110)	(8.4%)
Individuals	5,819,087	5,920,993	(101,906)	(1.7%)
Public sector entities	157,909	101,195	56,714	56.0%
Non-commercial institutions	683	569	114	20.0%
Total	**16,215,360**	**17,352,339**	**(1,136,979)**	**(6.6%)**

As of 31 December 2013, gross credit exposure to customers was PLN 16,215.4 million, i.e. it was 6.6% lower from 31 December 2012. The largest part of the portfolio of amounts due from customers was loans to non-financial sector entities (58.6%), which declined by 8.4% in 2013. Amounts due from individuals amounted to PLN 5,819 million, i.e. were down by 1.7% as compared to 2012, while their share in total gross credit receivables increased by 1.8 percentage points.

As of 31 December 2013, the currency structure of loans was slightly changed as compared to 2012 year end. The share of foreign-currency loans increased from 15.2% in December 2012 to 17.4% in December 2013. It should be Noted that the foreign currency loans are granted only to customers who have revenue streams in the loan currency or to entities which, in the Group's opinion, are able to predict or absorb the currency risk without exposing their financial position to any significant danger.

The Group monitors the concentration of credit exposures on an ongoing basis, striving to avoid situations where the portfolio would become reliant on a limited group of clients. As of 31 December 2013, the Group's credit exposure to customers did not exceed the legal concentration limit.



Concentration of exposure to customers

PLN '000	31.12.2013			31.12.2012		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 1	43,427	966,055	1,009,482	295,507	660,984	956,491
CLIENT 2	716,500	200,050	916,550	716,500	200,050	916,550
GROUP 3	157,436	575,257	732,693	217,657	499,661	717,318
GROUP 4	420,819	218,212	639,031	773,688	161,095	934,783
GROUP 5	412,479	169,411	581,890	303,686	167,502	471,188
CLIENT 6	250,000	300,000	550,000	250,000	-	250,000
GROUP 7	360,239	139,846	500,085	440,436	60,233	500,669
CLIENT 8	-	500,051	500,051	-	50	50
GROUP 9	323,687	174,815	498,502	318,113	175,675	493,788
GROUP 10	354,068	58,733	412,801	443,147	168,222	611,369
Total 10	3,038,655	3,302,430	6,341,085	3,758,734	2,093,472	5,852,206

** 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)*	31.12.2013		31.12.2012	
	PLN '000	%	PLN '000	%
Wholesale trade, excluding trade in vehicles	4,026,214	18.7%	4,285,518	21.1%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,537,891	11.8%	2,733,355	13.5%
Financial intermediation, excluding insurance and pension funds	2,182,495	10.1%	1,684,544	8.3%
Retail trade, excluding retail trade in vehicles	1,297,340	6.0%	1,226,034	6.0%
Production of food and beverages	1,242,203	5.8%	1,038,106	5.1%
Wholesale and retail trade in motor vehicles, repair of motor vehicles	903,130	4.2%	715,034	3.5%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	674,291	3.1%	139,252	0.7%
Production and processing of coke and petroleum products	672,524	3.1%	832,465	4.1%
Production of basic pharmaceutical substances, medicines and other pharmaceutical products	551,562	2.6%	791,205	3.9%
Metal ore mining	500,000	2.3%	500,584	2.5%
Top 10 business sectors	14,587,650	67.7%	13,946,097	68.7%
Manufacture of electric appliances	460,380	2.1%	346,996	1.7%
Production of metal goods, excluding machines and equipment	446,220	2.1%	424,532	2.1%
Construction of buildings	430,077	2.0%	681,676	3.4%
Manufacture of chemicals and chemical products	407,024	1.9%	280,816	1.4%
Manufacture of rubber and plastic products	371,546	1.7%	453,766	2.2%
Production of beverages	364,493	1.7%	109,782	0.5%
Telecommunication	361,581	1.7%	217,856	1.1%
Manufacture of furniture	336,509	1.6%	240,335	1.2%
Business of head offices; management advisory	321,366	1.5%	288,537	1.4%
Manufacture of furniture	266,500	1.2%	234,640	1.2%
Top 20 business sectors	18,353,346	85.2%	17,225,033	84.9%
Other sectors	3,164,542	14.8%	3,042,386	15.1%
Total	21,517,888	100.0%	20,267,419	100.0%

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

1.2 Loan portfolio quality

The Group's receivables are allocated to two portfolios: a portfolio with recognized impairment and a portfolio without recognized impairment (IBNR). In the portfolio with recognized impairment, individually significant classifiable exposures are subject to a case-by-case assessment, while for exposures that are not individually significant the impairment assessment is carried out collectively as a group-based analysis.

Loans to customers per portfolio without recognized credit losses vs. portfolio with recognized credit losses

PLN '000	31.12.2013	31.12.2012	Change	
			PLN '000	%
Without recognized credit losses, including:	14,983,311	15,938,733	(955,422)	(6.0%)
non-financial sector entities	14,267,713	15,005,344	(737,631)	(4.9%)
corporate clients*	9,093,770	9,833,172	(739,402)	(7.5%)
individual clients	5,173,943	5,172,172	1,771	0.0%
With recognized credit losses, including:	1,135,085	1,299,462	(164,377)	(12.6%)
non-financial sector entities	1,116,089	1,280,466	(164,377)	(12.8%)
corporate clients*	470,945	531,645	(60,700)	(11.4%)
individual clients	645,144	748,821	(103,677)	(13.8%)
Dues related to matured derivative transactions	96,964	114,144	(17,180)	(15.1%)
Total loans to customers, gross, including:	16,215,360	17,352,339	(1,136,979)	(6.6%)
non-financial sector entities	15,383,802	16,285,810	(902,008)	(5.5%)
corporate clients*	9,564,715	10,364,817	(800,102)	(7.7%)
individual clients	5,819,087	5,920,993	(101,906)	(1.7%)
Impairment, including:	(984,033)	(1,130,927)	146,894	(13.0%)
dues related to matured derivative transactions	(81,556)	(94,925)	13,369	(14.1%)
Total loans to customers, net	15,231,327	16,221,412	(990,085)	(6.1%)
Provision coverage ratio**	79.5%	79.7%		
corporate clients*	73.8%	67.0%		
individuals	83.1%	88.2%		
Non-performing loans ratio (NPL)	7.0%	7.5%		

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

The volume of loans with recognized impairment dropped by PLN 164.4 million (or 12.7%), as compared to 2012, mainly as a result of improved quality of both corporate client portfolio (following repayments of restructured loans) and consumer client portfolio, as well as regular write-offs made for consumer loans. Additionally, the non-performing loans (NPL) ratio fell to 7.0% in 2013 from 7.5% in the previous year.

The Management Board believes that the provisions for loan receivables as of the balance-sheet date represent the best estimate of actual impairment for the portfolio. The individual approach is based on the discounted forecast of cash flows connected with repayment of receivables or recoveries from collateral. The group-based approach is based on loss indicators calculated on the basis of a reliable historical database of clients having difficulties in paying their liabilities to the Bank. And for exposures without any indication of impairment, the Group calculates impairment write-offs, depending on the risk profile, on the basis of the Limit Risk Rating, taking account of expected recovery rates based on collateral, the probability of a customer's default and historical Loss Given Default (LGD) values.

As of 31 December 2013, portfolio impairment amounted to PLN 984 million, i.e. it was 13% lower as compared to PLN 1,130.9 million at 2012 year end. The decline in impairment mainly occurred for the receivables classifiable at the portfolio level (by PLN 88.7 million, or 14.5%). The IBNR losses also decreased, by PLN 31.5 million, or 26.6%. The provision coverage ratio decreased from 6.5% in December 2012 to 6.1% in December 2013.

Impairment of the customer loan portfolio

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	87,095	118,608	(31,513)	(26.6%)
Impairment of receivables	896,938	1,012,319	(115,381)	(11.4%)
accounted for individually	374,159	400,831	(26,672)	(6.7%)
accounted for collectively	522,779	611,488	(88,709)	(14.5%)
Total impairment	984,033	1,130,927	(146,894)	(13.0%)
Provision coverage ratio (total loans)	6.1%	6.5%		

1.3 Off-balance-sheet commitments

As of 31 December 2013, the Group's commitment relating to its contingent liabilities was PLN 15,901.1 million, i.e. it was 11.6% higher as compared to 31 December 2012. The largest change was reported for credit commitments, which rose by PLN 1,107.2 million (i.e. 10%). Credit commitments once again represented the biggest share (76.7%) in contingent liability commitments. Credit commitments consist of committed but currently unutilized credit lines and unused overdraft facilities.

Contingent off-balance sheet liabilities granted

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Guarantees	1,775,108	1,764,624	10,484	0.6%
Letters of credit issued	135,060	144,855	(9,795)	(6.8%)
Third-party confirmed letters of credit	2,509	4,273	(1,764)	(41.3%)
Committed loans	12,199,651	11,092,470	1,107,181	10.0%
Underwriting other issuers' securities issues	1,508,050	1,212,550	295,500	24.4%
Other	280,761	35,186	245,575	697.9%
Total	15,901,139	14,253,958	1,647,181	11.6%
Provisions for off-balance sheet liabilities	13,150	11,476	1,674	14.6%
Provision coverage ratio	0.08%	0.08%		

As of 31 December 2013, the total amount of collateral established on the accounts or assets of the Bank's borrowers amounted to PLN 2,516 million, as compared to PLN 2,483 million as of 31 December 2012.

In 2013, the Bank issued 10,050 enforcement titles in a total amount of PLN 210.7 million, as compared to 11,119 enforcement titles in a total amount of PLN 176.7 million in the previous year.

2. External funding

The total external funding of the Bank (from customers and banks) stood at PLN 32.9 billion as at the end of 2013 and was PLN 3.7 billion (or 12.8%) higher than at the end of 2012. The changes to external funding of the Bank was mainly contributed by demand deposits of non-financial sector customers (up by PLN 3.1 billion or 22.7% YoY). Higher volume was also reported for term deposits (up by PLN 2.3 billion or 22.8%) driven by higher deposits from banks and financial sector entities. At the same time, there was a decrease in term deposits from non-financial sector customers and liabilities due to sold securities under repurchase agreements (in total repo liabilities from banks and customers were down by PLN 1.5 billion or 40.9%).

Funding from banks

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Current account	861,508	939,163	(77,655)	(8.3%)
Term deposits	3,356,503	538,722	2,817,781	523.0%
Loans and advances received	374,898	324,954	49,944	15.4%
Liabilities from securities sold under agreement to repurchase	1,783,602	553,463	1,230,139	222.3%
Other liabilities	1,925	127	1,798	1,415.7%
Total funding from banks	6,378,436	2,356,429	4,022,007	170.7%

Funding from customers

PLN '000	As of		Change	
	31.12.2013	31.12.2012	PLN '000	%
Deposits of financial sector entities				
Current accounts	320,634	445,054	(124,420)	(28.0%)
Term deposits	2,939,233	2,349,736	589,497	25.1%
	3,259,867	2,794,790	465,077	16.6%
Deposits of non-financial sector entities				
Current accounts, including:	16,983,122	13,839,360	3,143,762	22.7%
Corporate clients	7,703,769	6,994,179	709,590	10.1%
Individuals	5,931,907	4,836,482	1,095,425	22.6%
Public entities	3,347,446	2,008,699	1,338,747	66.6%
Term deposits, including:	5,841,724	6,995,570	(1,153,846)	(16.5%)
Corporate clients	4,649,633	5,112,645	(463,012)	(9.1%)
Individuals	975,276	1,059,611	(84,335)	(8.0%)
Public entities	216,815	823,314	(606,499)	(73.7%)
	22,824,846	20,834,930	1,989,916	9.6%
Total deposits	26,084,713	23,629,720	2,454,993	10.4%
Other liabilities				
Liabilities from securities sold under agreement to repurchase	352,153	3,061,956	(2,709,803)	(88.5%)
Other liabilities, including:	131,899	160,489	(28,590)	(17.8%)
Cash collateral	101,646	74,726	26,920	36.0%
	484,052	3,222,445	(2,738,393)	(85.0%)
Total funding from customers	26,568,765	26,852,165	(283,400)	(1.1%)

3. Interest rates

The table below presents weighted average effective interest rates for receivables and liabilities by segment of the Bank's activities:

As of 31 December 2013

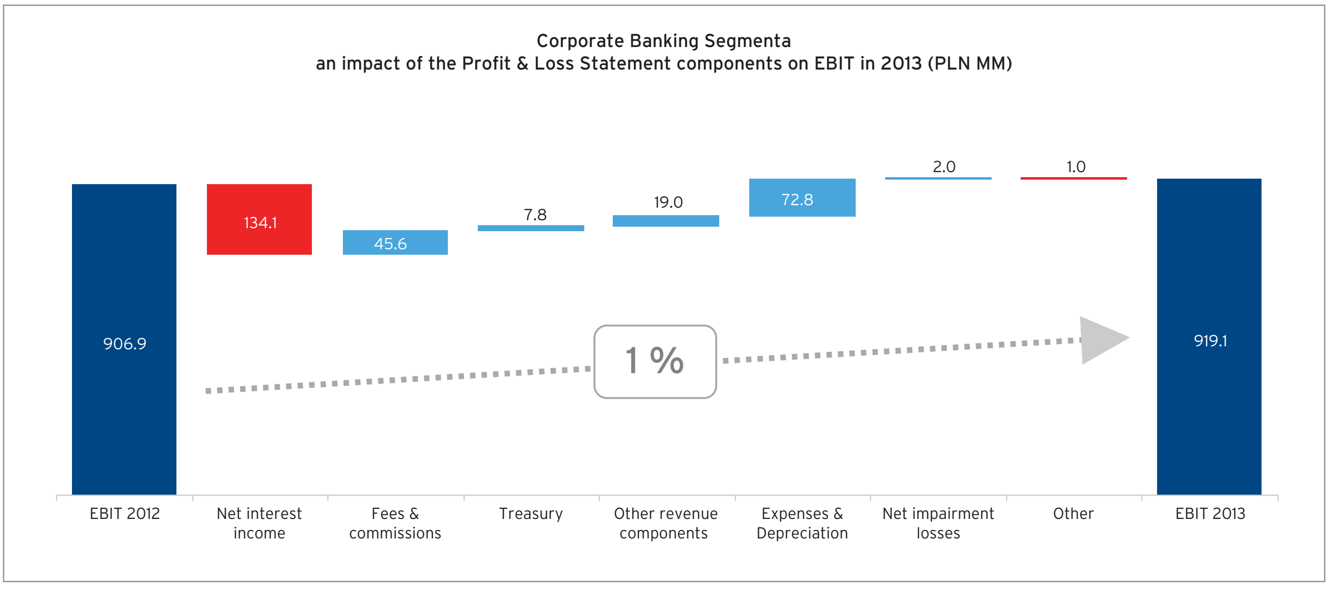
in %	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
fixed term	4.05	1.85	1.17	13.10	3.34	-
Debt securities	2.89	1.47	2.52	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
fixed term	2.24	0.24	0.10	2.04	0.21	0.22

As of 31 December 2012

in %	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
fixed term	5.77	1.81	1.42	15.82	2.06	-
Debt securities	4.49	2.62	2.82	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
fixed term	3.56	0.17	0.21	3.62	0.37	0.26

4. Corporate Banking Segment

4.1 Summary of segment's results

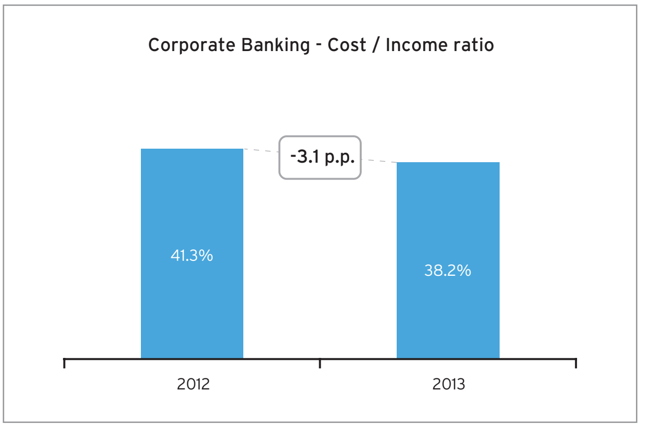


In 2013, the pre-tax profit of the Corporate Bank segment rose by PLN 12.2 million, i.e. 1.3%. The following factors affected the pre-tax profit of the Corporate Bank segment in 2013 as compared to the previous year:

- Net interest income of PLN 581.0 million versus PLN 715.1 million in 2012 – a decline by PLN 134.1 million, mainly due to income on the debt securities portfolio lower by PLN 190.8 million, i.e. 26.4% YoY. For client activities, net interest income was also lower, because of interest rate cuts to all-time low level;
- Net fee and commission income of PLN 296.5 million versus PLN 250.9 million in 2012 – an increase by PLN 45.6 million, achieved in the brokerage and custody services segments. The increase in brokerage fees and commissions resulted from DMBH's participation in numerous transactions in the capital market (more details on page 116 of this report) and from higher value of session and block transactions executed via DMBH in the WSE equity market (up by 30% YoY);
- Result on financial instruments held for trading and revaluation amounted to PLN 315.6 million versus PLN 335.7 million in 2012 (a decline by PLN 20.1 million due to a lower result on operations in the interbank market), hedge accounting result of PLN 2.1 million and result on investment debt securities of PLN 305.3 million versus PLN 279.5 million in 2012 (an increase by PLN 25.9 million in connection with gains realized in favorable conditions in the domestic debt market) – these items are shown on the above chart under "Treasury";
- General and administrative expenses and depreciation totaling PLN 585.3 million versus PLN 658.1 million in 2012 – a decline by PLN 72.8 mainly as a result of lower personnel costs, despite the restructuring reserve of PLN 14.2 million established in October 2013;

  A lower cost base in 2013 improved the Cost/Income ratio even further, to 38.2%, i.e. by 2.1 percentage points as compared to 2012;

- Net impairment write-offs of PLN 26.1 million versus PLN 28.1 million in 2012 are mainly a result of write-offs with respect to impaired receivables (classified in previous years) in the Commercial Bank (MME) segment. The quality of the portfolio without impairment remains stable.



4.2 Corporate and Commercial Bank

As regards corporate banking operations, the activities of the Bank include comprehensive financial services provided to largest Polish companies and strategic businesses with a strong growth potential, as well as to top financial institutions and public sector companies.

The number of corporate clients (including strategic clients, global clients and Commercial Bank clients) was 7.5 thousand as of 2013 year end, i.e. it decreased 2% from 2012, when the number was 7.6 thousand. In Commercial Bank (which covers small and medium-sized enterprises, large companies and the public sector), the Bank served 5.4 thousand clients as of 2013 year end, i.e. 3% fewer as compared to 5.6 thousand clients served as of 2012 year end.

A shared characteristic of corporate banking clients is their demand for advanced financial products and advice. In this area, the Bank ensures the coordination of offered investment banking, treasury and cash management products and prepares loan offers involving various forms of financing. Modern financing structures offered by the Bank are innovative and competitive thanks to a combination of the Bank's know-how and experience and its cooperation within Citigroup's global organization.

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

Assets

PLN million	31.12.2013	31.12.2012	Change	
			PLN '000	%
Enterprises, including:	3,403	3,133	270	9%
SMEs*	1,611	1,491	120	8%
Large enterprises*	1,792	1,642	150	9%
Public Sector	282	101	181	179%
Global Clients	3,655	4,165	(510)	(12%)
Corporate Clients	2,730	2,778	(48)	(2%)
Other**	105	323	(218)	(67%)
Total Commercial Bank	10,175	10,500	(325)	(3%)

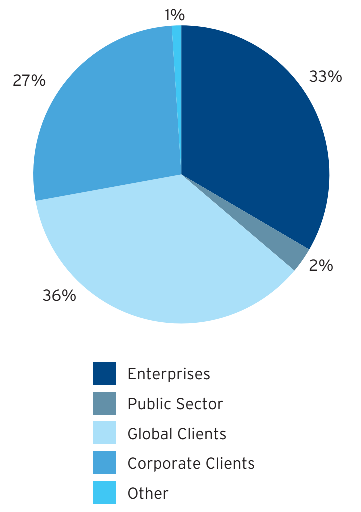
Liabilities

PLN million	31.12.2013	31.12.2012	Change	
			PLN '000	%
Enterprises, including:	3,331	2,969	362	12%
SMEs*	2,384	2,224	160	7%
Large enterprises*	947	745	202	27%
Public Sector	3,848	3,110	738	24%
Global Clients	7,845	8,147	(302)	(4%)
Corporate Clients	3,404	2,860	544	19%
Other**	66	54	12	22%
Total Commercial Bank	18,494	17,140	1,354	8%

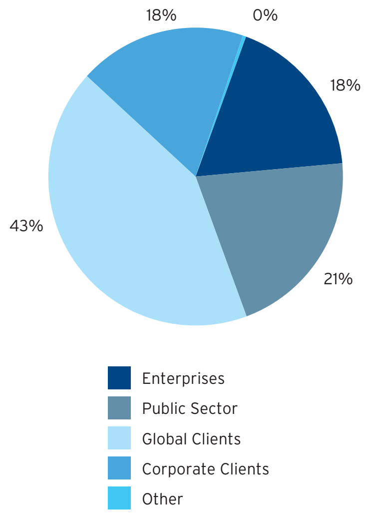
* *Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SME) and from PLN 150 million to PLN 1.5 billion (large enterprises).*

** *"Other" includes, among others, clients under restructuring and clients of Handlowy Leasing Sp. z o.o. who are not clients of the Bank.*

Structure of the Commercial and Corporate Bank assets as of 31.12.2013



Structure of the Commercial and Corporate Bank liabilities as of 31.12.2013



Corporate and Commercial Bank - key transactions and achievements in 2013:

- In 2013, the Bank actively promoted the Emerging Market Champions program (a program dedicated to local corporate clients and global clients to provide support and financial services required for expansion into foreign markets) via a dialogue with clients, the dedicated "Business without Boarders" website and targeted media and press coverage. As of 2013 year end, the Bank served more than 270 clients under the program (including 241 global clients implementing their investment programs in Poland jointly with Citi Handlowy, for example Hyundai or Mando, or 31 local corporate clients investing in global markets in cooperation with Citi Handlowy, for example KGHM, Maspex or Polpharma);
- As part of its corporate finance operations, the Bank:
  - was a member of the bank consortium that granted a USD 400 million syndicated loan to provide inventory financing to a client from the fuel sector;
  - launched in December 2013 a new medium-term financing scheme for financial institutions based on Cross Currency Reverse Repo transactions; the value of the first transaction was CHF 50 million;
  - signed a PLN 100 million vendor finance agreement with a client from the mining sector;
  - signed a PLN 30 million Reverse Factoring agreement with a client from the FMCG sector, under which the Bank will finance receivables from the vendors selected by the client and pay the client's liabilities prior to their maturity dates.
- As part of its debt securities issue programs for corporate clients, Citi Handlowy:
  - signed the agreement for a debt securities issue program to be implemented for a client from the financial sector subject to a PLN 3.5 billion cap;
  - performed a PLN 500 million bonds placement for a client from the financial sector;
  - signed the agreement for a bonds issue program to be implemented for a client from the mining sector, with the Bank's commitment equal to PLN 122 million.
- The Bank made the following transactions with clients in the Global Clients segment:
  - A vendor finance program carried out for the owner of the largest retail chain in Poland was increased to PLN 400 million;
  - A receivables discount program for PLN 315 million was started for one of the leaders in the fuel sector;
  - One of the leading clients in the retail sector received a long-term loan for PLN 300 million;
  - A credit facility up to PLN 100 million to finance current business needs was granted to a client from the retail sector;
  - PLN 100 million were contributed to a scheme to refinance long-term debt of one of the leading FMCG companies;
  - A guarantee for PLN 70 million was issued to support a railroad infrastructural project;
  - An overdraft for PLN 65 million was granted to an international manufacturer and supplier of agricultural, food, financial and industrial products and services;
  - A commercial credit facility for USD 20 million was granted to a corn & feedstuff wholesaler;
  - Advisory services were provided to support the acquisition of Kredyt Bank by BZ WBK – one of the largest transactions of that kind in Poland's banking sector.
- In the Commercial Bank segment (SME, MME and the public sector), client assets rose by 14% in 2013 from 2012 year end. The key growth factors included the following financing transactions closed in 2013: long term financing in an amount of PLN 101 million and an overdraft for PLN 20 million provided to a ceramic tile manufacturer; a PLN 90 million overdraft and a PLN 20 million reverse factoring scheme for an IT hardware distributor; a PLN 50 million vendor finance scheme and a PLN 25 million reverse factoring scheme for a canned fish manufacturer; a PLN 25 million commercial loan and a PLN 30 million renewable loan for a machine maintenance provider; a PLN 52 million loan for an electrical system contractor; a PLN 35 million overdraft and a long-term loan in an amount of PLN 15 million granted to a home appliance manufacturer; a renewable loan and an overdraft (raising the total commitment by PLN 50 million) for a footwear seller; and a PLN 50 million overdraft granted to a university.

  In 2013, loans to finance projects to improve the energy efficiency of Commercial Bank clients gained attractiveness. They are offered jointly with KfW (Kreditanstalt für Wiederaufbau). Citi Handlowy first asked KfW for a limit of EUR 30 million, but then increased it to EUR 55 million (another EUR 25 million for small and medium-sized enterprises) following their success.
- Customer acquisition. In the Commercial Bank segment, the Bank acquired 676 new clients in 2013 (85 MMEs, and 440 SMEs and 151 Public Sector entities). In 2013, the Bank won the tender as financial services provider of the City of Olsztyn and the City of Tarnów. At present, Citi Handlowy is the leader in the segment of financial services dedicated to the Public Sector and cooperates with such cities as Warsaw, Tarnów, Wałbrzych, Inowrocław, Olsztyn, Elbląg, Kołobrzeg, and many other Public Sector entities.

4.3 Treasury

In terms of financial results generated by the Bank in the area of treasury products, 2013 was one of the most successful financial periods in recent years.

The Bank's position of the leader in the market of foreign exchange transactions with corporate clients remained unchallenged, and was confirmed by the ranking published by the prestigious Euromoney magazine in May 2013. Citi Handlowy won the ranking for the fifth consecutive year in the category of FX transactions with corporate clients, with a 36% market share (i.e. higher by 24 percentage points than the second best bank). The ranking is created on the basis of market shares estimated after a client survey. That international examination has been published for over 30 years and is held in high esteem in the financial community.

In terms of volume, FX transactions rose 11% in 2013 from 2012. This increase covered both standard transactions and those executed on the Citi FX Pulse platform, dedicated to FX operations, which confirms that the solutions offered by the Bank to invest funds and to manage FX positions meet the expectations of the most demanding clients in that area.

In February 2013, Citi Handlowy was awarded for its achievements in the spot market. It received the Treasury BondSpot Poland award for activity in fixing sessions and for the highest turnovers in 2012.

In March 2013, jointly with Dom Maklerski Banku Handlowego S.A. (brokerage house), the Bank started to quote securities on the Warsaw Stock Exchange and, thus, gained access to an additional transactional channel to distribute securities amongst all participants of the Stock Exchange.

The Bank's proposal dedicated to institutional investors in the area of purchase and sale of Treasury bonds was still competitive and attractive to clients. In 2013, Citi Handlowy maintained transaction volumes in that area at the record level from 2012.

The Bank incessantly remains a leader in arranging issues of bonds and certificates of deposit for banks. According to the "Rating & Market" report by Fitch Ratings, the Bank had a nearly 21% share in this market segment at the 2012 year end.

In 2013, the Bank was ranked first, for the second year in a row, in a prestigious competition organized by the Ministry of Finance to select the Treasury Securities Dealer for 2014. The Bank performs this function and cooperates with the Ministry of Finance in order to build a transparent, liquid and effective market in Treasury securities. As the winner of the ranking, Citi Handlowy has reinforced its position as the leader in terms of quality of quotation in the secondary market and confirmed the Bank's active approach to supporting market liquidity and developing Poland's bonds market.

4.4 Transaction services

The transactional products and services offered by the Bank include cash management products (deposits and current accounts, liquidity management products, MicroDeposits and e-banking), cards, payment and receivable processing (Direct Debit and Speedcollect), cash products, EU-oriented advisory services and trade finance products.

The rich history of cooperation with key Polish and international clients and the continuous development of the product range ensure the Bank a leading position in multiple market segments. The Bank processes the largest volume of direct debit transactions in Poland, with a 40% market share. The Bank is a pioneer in the field of prepaid cards. MicroDeposits, i.e. a product dedicated to mass deposit processing, is a leading solution in the market, with a nearly 25% market share. And the Bank offers most advanced liquidity management products available in the market. The dynamic growth of turnovers in the area of finance gave the Bank a 14% market share in the factoring market.

The strong position of Citi Handlowy in the transactional services market was rewarded by clients in the Euromoney Cash Management Survey, in which the Bank advanced two levels up and was finally ranked second best in the 2013 edition.

The development priorities adopted for transactional services for 2013 included initiatives to:

- Activate clients and to raise the so called share-of-wallet (share of the Bank's products in a client's wallet);
- Develop and commercialize the e-banking application;
- Expand in the trade finance area.

Client activation and share-of-wallet increase

In 2013, the Bank launched a campaign to promote four packages of transaction products: receivables management and payments, employee services, trade finance and energy efficiency. The campaign was targeted at the small and medium-sized enterprise segment. Its goal was to create long-lasting relationships with clients by knowing their individual needs and offering products tailored to their business profile. At meetings, experts from the Bank showed clients how to optimize processes, improve efficiency and promote savings with the use of cash management and trade finance solutions. As part of the campaign, nearly 2,300 meetings were arranged throughout Poland in 2013. The outcome was a 20% increase in transaction volumes with and revenues from target clients of the campaign.

Development and commercialization of the e-banking application

The Bank intends to improve technology solutions so that they can ensure instant customer service and dynamically adapt to changes in the environment.

A genuine landmark in 2013 was the implementation of a solution that enables customers to submit order via mobile devices.

In 2013, the Bank also launched the Express Elixir solution for its customers that immediately executes payments and credits the beneficiary account.

In 2013, the Bank also introduced a solution enabling a client to submit orders and to serve accounts without the need to use the e-banking platform. Customers who use this functionality communicate with the Bank directly from their financial & accounting application. Such solution is especially useful for customers who process large volumes of transactions and cooperate with numerous contractors.

Citi Trade Portal, implemented in the end of 2012, has been still expanded by new functionalities. In 2013, the migration of clients to the new platform was continued. The application has now over 300 users amongst clients.

Trade finance expansion

In 2013, top class technology infrastructure and a diversified product range resulted in an accelerated development of trade finance products. Factoring turnovers rose 26% from the previous year and the fast growing volumes reinforced the Bank's position as one of the leaders in the market – the Bank was finally ranked 3rd among banks and 8th among all factoring institutions.

Deposits and current accounts

A current account enables its holder to access the full product range offered by the Bank. Excess funds accumulated by a client in a current account, i.e. funds that are not required to finance day-to-day operations, may be invested in term deposits or stay in a current account with a higher interest rate.

In addition to term deposits, the Bank sells automatic deposits, negotiated deposits and blocked deposits. Escrow or custody accounts are dedicated to more advanced structures that require collateral. In 2013, such solutions were used, for example, to protect the interests of residential property buyers (apartments and homes) under the so called "Developer Act" (the Act of 16 September 2011 on protection of rights of the buyer of an apartment or a single-family house (Journal of Laws of 2011, No. 232, item 1377).

Liquidity management products

Liquidity management structures are advanced instruments that optimize cash flows for a single client or within a capital group. The liquidity management products offered by the Bank make possible the optimized management of funds in accounts and of excess cash generated by overly liquid companies to allocate it to entities with an increased demand for capital. The Bank's liquidity management products include:

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

These liquidity management structures are beneficial to clients as they can reduce their overall debt and its servicing costs at no liquidity risk. These structures can also help clients to streamline some operational processes.

Electronic banking

The Bank offers its clients the CitiDirect electronic banking platform and the CitiDirect EB application (the latter is mainly dedicated to small and medium-sized enterprises). The annual volume of transaction processed via electronic banking remains high. In 2013, it amounted to 26 million as compared to 25 million in the previous year. As of 2013 year end, the number of customers being active users of the electronic banking system was nearly 5,000. The share of electronic-only statements delivered to clients was stable at a high level of 90% (unchanged from 2012).

For CitiDirect clients, the implementation of a new e-banking interface and a new look for its mobile version was one of the most momentous events in the area of e-banking in 2013. This change was connected with the launch of both variants of the e-banking systems and the Citi Trade Portal (trade finance and services) offered by the Bank on the CitiDirect EB portal. As a result, customers gained a single access channel to CitiDirect and the Citi Trade Portal. As an additional advantage, the new release of CitiDirect also offers faster access to individual functionalities of CitiDirect from the CitiDirect EB portal.

From 2013 on, clients can also manage their user entitlements in the e-banking system. Accordingly, clients can effectively modify the application access rights of system users. In the new process, the involvement of the Bank's personnel is limited to ensuring an appropriate security level.

Additionally, CitiDirect users may now order instant payments in the Express Elixir and Target2 systems.

In 2013, the Bank continued the development of the Citi Trade Portal (trade finance products and services). Apart from reverse factoring services, the platform was expanded by new functionalities for clients, i.e. regular factoring and receivables discounting. In the area of trade finance products, the functionalities supporting import and export letters of credit, bank guarantees and import and export documentary collection were also implemented on the platform.

MicroDeposits

MicroDeposits are used by institutions and entities that accept cash deposits from various payers and are obliged to return them together with accrued interest. The MicroDeposits product has also a functionality that supports calculations of historical interest value, i.e. the allocation of interest amounts to respective deposits placed by the payer in the past.

In 2013, the Bank focused on efforts to improve the MicroDeposits product. The key changes included a new online communication tool and the integration of the Bank's system with new financial and accounting systems. This is of particular importance in the light of changes recommended by the Ministry of Justice, intended to unify the systems supporting its subordinate entities. In addition, the Bank introduced an option to open microdeposits in foreign currencies.

The MicroDeposits product is mainly used by public sector entities. The Bank continues its works to make this product more attractive also to commercial businesses. In 2013, a special offer dedicated to property developers was prepared – the new solutions meet the most recent requirements of Polish law.

As a result of a consistent product development strategy, the MicroDeposits product continuously strengthens its market position. In 2013, the Bank attracted between ten and twenty new clients. In addition to public sector institutions, some commercial companies also decided to use this product

As compared to 2012, total balances accumulated on MicroDeposits rose nearly 50%.

Receivables processing: SpeedCollect, Direct Debit and Cash Products

SpeedCollect is a service that allows for the automated booking of receivables for creditors who are recipients of mass payments. In 2013, the Bank remained one of the leaders in Poland's market in terms of volumes of processed transactions. The number of settled transactions was at a level comparable to the previous year. The Bank added a new channel for receipt of payments, Express Elixir, for its corporate clients.

The Bank migrated its clients to a new system for the SpeedCollect and Direct Debit products. This is a third-generation system that ensures a fast execution of projects submitted by clients. It is possible thanks to the three-layer architecture of the system, the independent and concurrent processing of information for each client and a large scalability of the system.

Direct Debit: In 2013, the Bank was again the leader in the Direct Debit market, as it settled the largest volume of transactions as the creditor's bank, whilst achieving an increase in the volume of settled transactions by 6% and retaining a nearly 40% market share.

Cash products: Despite the fact that electronic settlement channels are becoming more and more widespread, a significant portion of transactions, i.e. about 80%, is still made in cash in Poland. Citi Handlowy is a leading bank in terms of cash delivered to the National Bank of Poland. To meet the expectations of its clients, the Bank provides comprehensive solutions that support cash transactions.

A vast majority of incoming payments is made as sealed (closed) deposits, i.e. they are delivered to the Bank in sealed bags and counted while the client is absent.

The Bank also offers other variants of cash deposits, tailored to expectations of various clients. In addition to regular sealed deposits, the following solutions are also available:

- over-the-counter (open) cash deposits made via outlets of Poczta Polska S.A. (Polish Mail) throughout Poland;
- Low-Cost Cash, i.e. so called "cheap cash", which means a sorted-out deposit that meets specific quality requirements;
- purchase of safe envelopes used for making cash deposits;
- electronic flow of documentation;
- SpeedCash (SpeedCollect for cash deposits) – The Bank offers to clients a possibility to make cash deposits in virtual accounts, where the details necessary to correctly identify a deposit are directly included in the account number, which minimizes the risk of incorrect (unidentifiable) inflows.

In 2013, the Bank continued developing alternate solutions for corporate clients by opening new partner points which offer basic banking products. The possibilities of a client's direct contact with the Bank were enhanced through the partnership with Poczta Polska S.A. Such an offer is available in towns and cities where the Bank has no branch.

Foreign bank transfers

In 2013, the volume of foreign bank transfers rose 10% from the previous year. In October, the Bank recorded the all-time monthly record high volume of foreign currency transfers. The Bank vaunts the broadest range of foreign currencies available in Poland's market. Its clients have access to 134 currencies, which enable them to make settlements with 180 countries in the world.

Local bank transfers

In August 2013, a new innovative channel was launched for local bank transfers: Express ELIXIR. Corporate clients may now transfer and receive funds to and from other banks literally in a few seconds. Express ELIXIR is the first professional system for direct instant payments in Poland. This solution, which is operated by Krajowa Izba Rozliczeniowa S.A. (National Clearing House), is already available to clients of 8 banks.

Express ELIXIR is the first professional system in Poland (and second in Europe, after the UK) that allows for direct execution of instant transfers. Settlements in that system do not engage any intermediary's accounts. Funds accumulated for the purpose of transaction settlement are deposited with the National Bank of Poland.

Electronic Postal Transfers

Electronic Postal Transfers is a product dedicated to corporate clients that send cash to individuals. This product has aroused enormous interest among both commercial and public clients of the Bank.

In 2013, the Bank actively developed its cooperation with an alternate mail operator. A solution based on cooperation with that entity was successfully implemented at some key clients of the Bank and is now a vital element improving the attractiveness of products for businesses. Thanks to cooperation with the new partner, the Bank can deliver cash in an even more flexible manner.

Card products

The Bank offers a broad range of cards for business clients. These are Charge, Guaranteed or Debit Cards that may be used to cover employee business expenses and Prepaid Cards used by companies as holiday vouchers, sales support or under Loyalty Programs. As a remarkable event of the year 2013, the largest tender in the market for servicing one institution, won by Citi Handlowy, should be mentioned – it was also the largest transaction of that kind in the history of Citi Handlowy.

EU-oriented advisory services

In 2013, the EU Office was mainly focused on a campaign launched to promote investment financing programs that are to improve energy efficiency: SME Energy Efficiency Program and Municipal Energy Efficiency Program. Both programs are a continuation of long-term cooperation between Citi Handlowy and Kreditanstalt fur Wiederaufbau (KfW) bank. Under the SME Energy Efficiency Program and Municipal Energy Efficiency Program, KfW, on behalf of the European Union and in cooperation with the Council of Europe Development Bank (CEB), ensures funds and know-how to facilitate investments improving the energy efficiency of small and medium-sized enterprises and public sector entities. KfW programs are to encourage target entities to invest in energy efficiency and to induce banks in the countries in which a program is being implemented to expand their product ranges by including products that finance investments in energy efficiency.

Because of enormous interest in the program financing energy efficiency investments, negotiations were started with Kreditanstalt fur Wiederaufbau and led to an increase of the SME Energy Efficiency Program from EUR 10 to 35 million. In the course of implementation of both KfW programs, credit agreements were signed with clients of the Bank to finance energy saving investments for over EUR 30 million.

Trade finance products

Trade finance products are one of the key components of the Bank's transactional services proposal. In 2013, trade finance products again achieved a high rate of growth. Receivables financing, offered as factoring or vendor finance schemes, plays a vital role in this product group. The total value of the trade receivables purchased in that product group was PLN 6.7 billion, i.e. 26% higher than in the previous year. Such a spectacular increase in turnover, and, consequently, in assets, was possible thanks to the unrelenting development of factoring products, including Vendor Finance Programs and reverse factoring, which gained enormous popularity among clients of the Bank. Several new Vendor Finance Programs were implemented in 2013 for the largest clients of the Bank, in a total amount of PLN 365 million. Additionally, the program for one of the largest retail chains in Poland was enhanced to PLN 400 million. All those efforts translated into a significant increase in turnovers and asset levels.

The year 2013 saw a rapid expansion of the trade credit facility, launched in 2012. Its financing functionality covers not only the liquidity gap, but also short-term commercial contracts, including their pre-financing. In 2013, between ten and twenty contract financing transactions were closed for a total amount over PLN 250 million, including transactions to finance the upgrade of power units and purchases of professional equipment for chemical plants and power plants.

In 2013, the Bank took part in one of the largest transactions in Poland to finance oil reserves. For the Bank, it was the first transaction launched in such a structure.

A key element of the Bank's activities was the development and promotion of the Citi Trade Portal functionality – one of the best electronic platforms in the market that is dedicated to processing of trade finance products and services. The platform won the Innovation of the Year 2012 award. Citi Trade Portal offers convenient facilities at every stage of customer service operations: data upload (the Bank adjusts its processing to a client's file format), submission of an application for financing (online cost control and checks of available limits) and the full-scope feedback on transactions (status, reports, and notifications on the platform, by text message or email).
In 2013, the Bank implemented modules for clients that enable the processing of such products as import letters of credit, bank guarantees and multiple factoring finance options.

All those activities translated into higher interest in trade finance products offered by Citi Handlowy among its clients, which led to the growth of assets in that area to a new record breaking level. As of 2013 year end, those assets amounted to PLN 1.9 billion and were 21% higher than as of end of the previous year, and 2013 was the fifth consecutive year of growth for trade finance assets.

4.4.1 Custody services

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

The Bank maintained its leader position among the custodian banks in Poland. It offers custody services to both foreign institutional investors and domestic financial entities, in particular pension funds, investment funds and unit-linked insurance plans.

As part of its statutory activities, carried under a permit from the Securities and Exchange Commission (currently the Polish Financial Supervision Authority), the Bank operates securities accounts, clears securities trades, effects dividend and interest payments, performs asset portfolio valuations, provides individual reports, and arranges representation of clients at general shareholders' meetings of listed companies. The Bank also maintains a register of foreign securities, including intermediary services to clear transactions of domestic clients in foreign markets.

In the reporting period, the Bank maintained its position of the market leader in clearing securities transactions executed for the benefit of remote members of the Warsaw Stock Exchange and BondSpot S.A. In addition, the Bank participated in the clearing of transactions closed by institutional clients on the electronic debt securities trading platform, Treasury BondSpot Poland, established by BondSpot S.A.

The Bank was the first custodian bank in Poland to take advantage of the opportunities opened by amended legislation and add to its offer a solution where the Bank operates omnibus (collective) securities accounts for authorized foreign entities, thus acquiring new customers and strengthening its position in the segment of foreign financial intermediaries.

As of 31 December 2013, the Bank maintained 13,000 securities accounts.

At the same time, the Bank was the custodian for five open pension funds (OFE): Amplico OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE, and Nordea OFE; five voluntary pension funds (DFE): MetLife Amplico DFE, Nordea DFE, ING DFE, DFE Pekao, and Generali DFE; and two employee pension funds: Pracowniczy Fundusz Emerytalny PZU "Słoneczna Jesień" and Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A.

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

In 2013, the Bank continued its activities aimed at improving the legislation regulating the securities market. A representative of the Bank was the Chair of the Steering Committee of the Council of Custodian Banks at the Polish Bank Association for the fourth consecutive term of office and was appointed as member of the Supervisory Board of Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities). During the reporting period, the Board continued negotiations with the Polish Financial Supervision Authority in order to clarify doubts arising in connection with performance of some duties of the custodian of an investment fund and a pension fund. The Board participated in discussions on changes in tax law as regards the validity of residence certificates and the takeover of the function of income tax collector in respect of dividends by entities keeping securities accounts from issuers, which led to recommended amendments to laws and regulations. Via the Board, representatives of the Bank took active part in development of some new solutions in the capital market, including works of the working group to the Minister of Finance for the review of legislation regulating trade in financial instruments; implementation of the new trading system, "UTP", on the Warsaw Stock Exchange; providing opinions on amendments to the regulations issued by the Minister of Finance under the Investment Funds Act; determination of VAT taxation rules applicable to activities performed by a custodian of pension funds and investment funds; and determination of standard forms for the exercise of rights from securities in the course of corporate events.

The Board was actively involved in the evaluation of other legal drafts related to operations of domestic custodian banks. While utilizing their own resources, experience and competences, employees of the Bank, in cooperation with the Polish Financial Supervision Authority, the National Depository for Securities, KDPW_CCP S.A. (special purpose vehicle acting as central counterparty clearing house) and the Warsaw Stock Exchange, participated in consultations on new solutions to be implemented in the Polish capital market, through working groups established at the Polish Bank Association, and in deliberations of market working groups organized to develop transaction settlement standards, including in particular the National Market Practice Group appointed by the National Depository for Securities.

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.

The year 2013 was a big success for DMBH, as the company won record high market shares in its main business lines (Equity and ECM). Those achievements translated into all-time high financial results, both at the net profit and return on equity levels, as well as the revenues to costs ratio.

It was another consecutive year when the company held on to its lead in terms of turnovers in the equity secondary market, and even managed to increase its share in in-session turnovers from 12.2% in 2012 to 12.7% in 2013. Simultaneously, it considerably increased its advantage over the other capital market participants. In 2013, the second best participant had in-session turnovers lower by 30% than DMBH (in 2012 the difference was only 14%).

The table below shows the detailed turnovers realized via DMBH in the equity and forward contracts segments.

Value of equity turnover and volume of derivative trades of DMBH – session transactions

	2013	2012	Change (%)	Share in turnover in 2013	Share in turnover in 2012
Equity (PLN MM)	55,952	45,834	22%	12.7%	12.2%
Futures ('000 of units)	614.9	314.4	95%	2.7%	1.5%

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

In 2013, session transactions executed in the equity market of the Warsaw Stock Exchange (WSE) via DMBH amounted to PLN 56.0 billion and were up 22% from the previous year, i.e. significantly above the growth rate recorded by the WSE for all in-session turnovers, which increased by 17% over the same period of time. Forward contract turnovers realized by the company increased even more, i.e. by 95%, lifting its share in turnovers to 2.7%.

As of 2013 year end, DMBH was the market maker for 29 companies listed on the Warsaw Stock Exchange, which corresponds to 7.7% of shares listed in the WSE main market. The lower number of issuers for which DMBH was the market maker (as compared to 32 as of 2012 year-end) was partially offset by higher transaction volumes realized on the companies left in its portfolio. It is worth noting that in 2013 DMBH was the market maker for all the companies in the WIG20 index (excluding Citi Handlowy).

In addition, DMBH started to operate as the market maker for forward contracts on shares of the most liquid companies: PZU, PKO BP, Pekao and PKN Orlen. In accordance with the annual report prepared by the WSE, DMBH was one of the most active market makers on the WSE.

The biggest achievements of DMBH in 2013 included its leader position gained in IPO and SPO transactions, with the market share above 15%. In 2013, DMBH carried out the following transactions in the capital market:

- **Energa S.A.** – DMBH was a Joint Bookrunner in the IPO of Energa S.A., totaling PLN 2.4 billion (December 2013);
- **Legg Mason Akcji Skoncentrowany Fundusz Inwestycyjny Zamknięty** (concentrated closed-end fund) – DMBH was the Offering Agent for the public offering of Series D Investment Certificates, in an amount of PLN 42.7 million (September 2013);
- **Grupa Azoty S.A.** – DMBH was the Joint Global Coordinator and Joint Bookrunner in a transaction of accelerated sale of the shares owned by the Government of Poland, in an amount of PLN 626 million (April 2013);
- **Dexia Kommunalkredit Bank Polska S.A.** – DMBH was an intermediary in a private placement under which Getin Noble Bank S.A. bought shares in an amount of PLN 57.1 million (March 2013);
- **Bank Zachodni WBK S.A.** – DMBH was the Joint Global Coordinator and Joint Bookrunner in a secondary-market offering to sell the shares owned by KBC Bank NV and Banco Santander S.A., in an amount of PLN 4.9 billion (March 2013);
- **Polski Holding Nieruchomości S.A.** – DMBH was the Joint Global Coordinator and Joint Bookrunner in the IPO of Polski Holding Nieruchomości S.A., in an amount of PLN 238.6 million (February 2013);
- **Bank Pekao S.A.** - DMBH was the Joint Bookrunner in a transaction of accelerated sale of the shares owned by Unicredit SpA, in an amount of PLN 3.7 billion (February 2013);
- **PKO Bank Polski S.A.** – DMBH was the Joint Global Coordinator and Joint Bookrunner in a transaction of accelerated sale of the shares owned by the Government of Poland, in an amount of PLN 5.2 billion (January 2013);
- **NG2 S.A.** – DMBH was the Exclusive Bookrunner in a transaction of sale of a lot of shares in an amount of PLN 140 million (January 2013).

The launch of CitiFX Pro, a new transaction platform, in the end of Q3, 2013, turned out to be an outstanding success. It has substantially enhanced the proposal for individual customers. The platform allows selling and buying shares and ETFs listed on major foreign exchanges, as well as FX instruments in over-the-counter (OTC) trade with the use of financial leverage. The platform not only enables fast and simple investing, online and 24/7, via a Notebook, tablet or smartphone, but also provides information on foreign companies and markets. Its advanced modules ("Company Data" and "Stock Screener") help select investments in accordance with individual preferences and strategies of a client. The new platform is found very attractive by more and more clients who think highly of its user friendly approach, reliability and mobile access functionality.

In 2013, subscriptions for certificates of closed-end investment funds were introduced as a new component of the product range dedicated to retail customers.

The year 2013 saw an increase in the number of investors using web-based connectivity to access their investment accounts online. As of 2013 year end, 3500 customers used online access to investment accounts. The percentage of orders submitted online in relation to the total number of orders stabilized and was equal to about 78% in 2013.

In 2013, optimization efforts were continued to close inactive account and attract new customers, among other things via Order Collection Points at the Bank. As a result of those activities, the number of investment accounts kept by DMBH was 9,070 as of 2013 year end, as compared to 9,310 as of the end of 2012, i.e. declined by 2.57%.

Summary financial data as of 31 December 2013*

Company	Headquarter	% of authorized capital held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2013
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	458,713	118,911	30,302

pre-audit data

4.6 Leasing

The Extraordinary General Meeting of Shareholders of Handlowy Leasing Sp. z o.o. ("Handlowy-Leasing" or "HL") held on 20 March 2013 passed a resolution under which HL was to reduce its leasing operations to performance of the lease contracts signed by 30 April 2013. The decision was previously approved by the Management Board and Supervisory Board of the Bank. After 30 April 2013, Handlowy Leasing signed no lease contracts and continued activities relating to the outstanding agreements, while keeping the quality of service and financial efficiency of operations.

The leasing product was maintained in the Bank's product range and is offered as part of the so called "open architecture," i.e. under partnership between the Bank and third party providers. Since June 2013, leasing services have been provided, under a cooperation agreement, by two partners: Europejski Fundusz Leasingowy S.A. and CorpoFlota Sp z o.o.

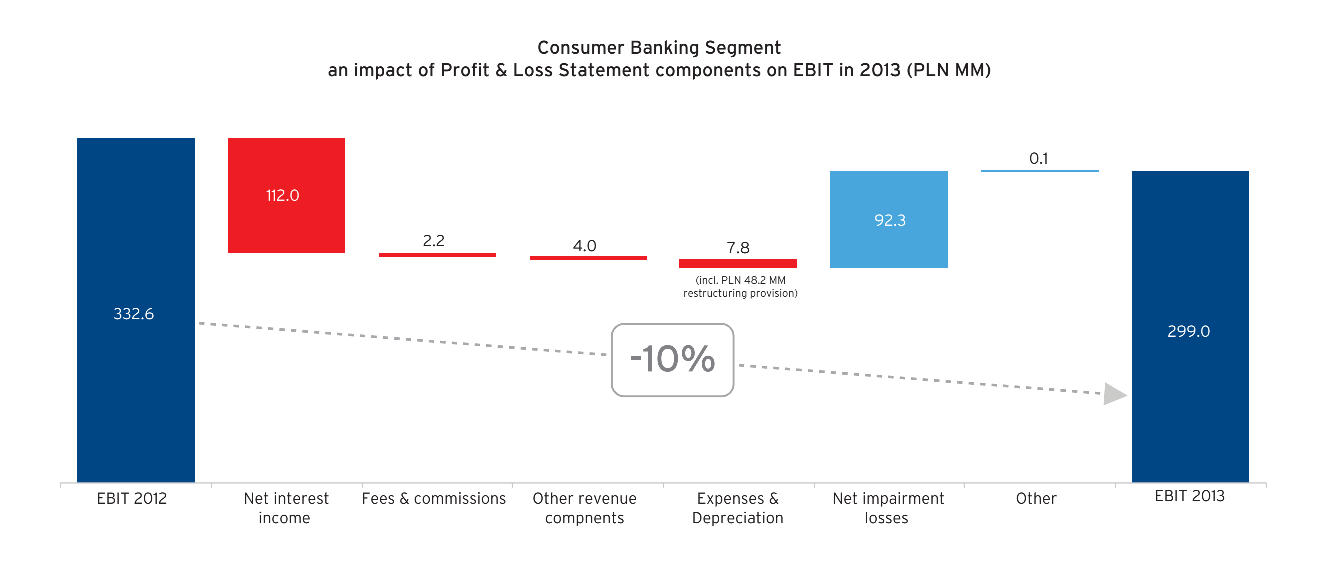
Summary financial data as of 31 December 2012*

Company	Headquarter	% of authorized capital held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2013
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	390,203	150,304	15,105

pre-audit data

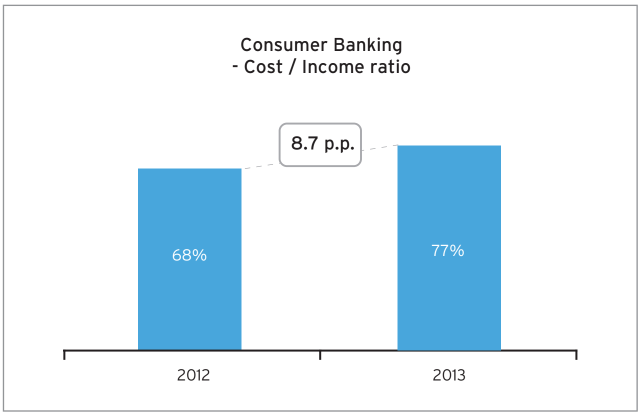
5. Consumer Banking Segment

5.1 Summary of the segment's results



In 2013, the pre-tax profit of the Consumer Bank segment fell by PLN 33.6 million, i.e. 10.1%: The following factors affected the pre-tax profit of the Consumer Bank segment in 2013 as compared to the previous year:

- Net interest income of PLN 661.1 million versus PLN 773.2 million in 2012 – a decline by PLN 112.0 million, or 14.5%, mainly as a result of lower interest revenues due to decrease in interest rates of loan products following market interest rate cuts (the interest rate on the credit card portfolio fell by 7 percentage points from 23% in the beginning of January of 2013 to 16% from July 2013). This was partially offset by lower interest expense despite the considerable growth of deposits (by PLN 1.0 billion, i.e. 17.1%);
- Net fee and commission income of PLN 345.8 million versus PLN 348.0 million in 2012 – a decline by PLN 2.2 million, i.e. 0.6%, mainly resulting from lower fees on credit and debit cards (due to a reduction of the interchange rate by the card organizations with effect from January 2013). Simultaneously, in 2013 versus 2012, higher revenues were achieved from sales of investment and insurance products (by PLN 19.7 million, or 14.9%), predominantly because of higher interest among customers in investment funds and unit-linked investment products;
- Other revenues include the result on financial instrument held for trading and revaluation (a decline by PLN 2.9 million), dividends (a decline by PLN 0.8 million) and net result on other operating revenues and expenses (a decline by PLN 0.3 million);
- General and administrative expenses and depreciation totaling PLN 779.3 million versus PLN 771.5 million in 2012 – an increase by PLN 7.8 million, or 1.0%, mainly affected by the restructuring provision of PLN 48.2 million established in October 2013. After excluding the above provision, general and administrative expenses and depreciation declined by PLN 40.4 million from 2012, including PLN 33 million of savings from the restructuring implemented in 2012, of which part was reinvested in technology;
- Reversal of net impairment losses in an amount of PLN 62.3 million in 2013 versus net impairment losses for PLN 30.0 million in 2012, i.e. improvement by PLN 92.3 million, resulting from the continued positive trend leading to recovery of the portfolio quality and, in consequence, reversal of net impairment losses. Simultaneously, in 2013 a part of retail impaired exposures was sold: in Q2, 2013 impaired receivables from cash loans and credit cards in an amount of PLN 148.8 million were sold (of which 98% were receivables written off the balance sheet of the Bank) for PLN 23.3 million and in Q4, 2013 impaired receivables from cash loans and credit cards in an amount of PLN 99.3 million were sold (of which 98% were receivables written off the balance sheet of the Bank) for PLN 10.2 million.



5.2 Selected business data

	2013	2012	Change	
			PLN '000	%
Number of individual customers	782.3	858.4	(76.1)	(8.9%)
Number of current accounts, including:	515.0	585.8	(70.8)	(12.1%)
number of operating accounts	164.1	180.7	(16.6)	(9.2%)
Number of operating accounts newly acquired in the period	66.8	78.9	(12.1)	(15.3%)
Number of savings accounts	180.4	193.1	(12.7)	(6.6%)
Number of credit cards, including:	773.3	795.4	(22.1)	(2.8%)
co-branded cards	465.0	464.3	0.7	0.2%
Number of active credit cards	691.2	720.7	(29.5)	(4.1%)
Number of debit cards, including:	344.8	418.0	(73.2)	(17.5%)
PayPass cards	316.8	364.7	(47.9)	(13.1%)

5.3 Key business achievements

Credit cards

There were 773.3 thousand credit cards as of the end of 2013, representing a decrease by 22.1 thousand versus the prior year period. With the credit card market continuing to shrink, the credit card portfolio of the Bank was decreasing at a slower pace than the market's. According to the data from the end of Q3 2013, the Bank's share in the total number of credit cards issued in the market increased to 12.5% (i.e. by 0.2 p.p.) versus the year-ago period, which helped the Bank retain its position as the third bank issuing the biggest number of credit cards.

As of the end of 2013, the total credit card balance improved 3% compared to the year-ago period, to PLN 2.2 billion. This resulted in further strengthening of the Bank's position as a credit card leader in terms of the credit facility value granted in the form of credit cards, with a market share of 19.5% versus 18.6% in the year-ago period. The Bank continued high also in terms of transaction value – according to the statistics from the end of Q3 2013, its market share was 20.9% versus 22.3% recorded a year ago.

In the reported period, the Bank acquired by 28% more credit cards than in the year-ago period. The dominant share in the structure of credit cards sold in 2013 was that of the co-branded Citibank World MasterCard with acquisition share of 52%. The other card that earned good sales results was the Citibank Wizz Air World MasterCard with an acquisition share of 16% followed by the traditional credit card with an acquisition share standing at 17%.

In 2013, the Rebate Program for Citi Handlowy credit card holders retained its position as one of Poland's largest programs of its kind. The program offers up to 50% discount in over 4.8 thousand commercial outlets across Poland. In 2013, in addition to regular discounts offered as part of the program, the credit card holders could enjoy additional promotions – the so called hot offers. Additionally, starting July 2013, the Bank launched a special program that offers various benefits and discounts to Citi Handlowy credit card holders. The "Hotel Privileges Program" and "Citibank World Priviliges Program" rolled out globally allows access to discounts and special benefits in over 30 thousand facilities worldwide.

Bank Accounts

Current accounts

The number of individual current accounts decreased by 12% versus the prior year period to 515 thousand at the end of 2013 (versus 586 thousand in 2012), including 337 thousand PLN current accounts and 178 thousand foreign currency current accounts (versus 188 thousand in 2012). The decrease in the number of accounts was driven by the decision to close down inactive deposit relationships in Q4 2013. As a result, 74 thousand accounts of 50 thousand customers were closed in December of 2013.

In 2013, the Bank continued its policy of building customer relations and encouraging customers to actively use current accounts. As a result, although the number of accounts decreased, the total balance of the current accounts kept with the Bank increased by 12%. The total current account balance stood at PLN 2.7 billion at the end of 2013.

Savings accounts

There were 180 thousand savings accounts with a total balance of PLN 3.2 billion at the end of 2013 compared to 193 thousand savings accounts with a total balance of PLN 2.4 billion in 2012. Similar to the current accounts, the decrease in the number of savings accounts was driven by closing of inactive savings accounts.

Credit and Lending Products

Cash Loan

The cash loan portfolio stood at PLN 1.9 billion at the end of 2013, which represented a decrease of 9% versus the year-ago period.

In 2013, the Bank focused on optimization of cash loan credit policy. Certain enhancements were introduced in terms of required documentation (e.g. option to present banking statements from other bank indicating a salary as proof of income) and its submission (scans allowed). Another positive change was a launch of one-hour process allowing for loan disbursement within one hour of signing the loan agreement. In November 2013, the Bank introduced an option of remote loan agreement conclusion via phone or through CBOL.

In December 2013, new pricing mechanism for cash loan was introduced – interest rate for new customers will be set based on a market rate WIBOR 3 month plus fixed margin.

Mortgage Products

The mortgage portfolio balance was PLN 1.1 billion at the end of 2013, representing an increase of 15% compared to the year-ago period.

The Bank's efforts in terms of acquisition of new mortgage customers were concentrated on CitiGold segment. After introduction in Q12013 the customer segment-based pricing model, CitiGold customers constituted around 50% of newly acquired customers.

The Bank continued the cross-selling strategy. As a result, more than nearly 100% of customers buying mortgage products purchased at least two other products (mainly operating accounts and credit cards with significantly growing share of investment products).

Investment and Insurance Products

Investment Products

In order to enhance the product offerings with new investment opportunities, 18 open investment funds offered by local investment fund companies and foreign investment companies were added to the offer in 2013. These changes involved extension of debt and equity product classes. The number of investment funds offered to customers at the end of 2013 was 148 in total (including 63 local and 85 foreign investment funds).

The Bank improved its offerings by introducing investment fund advisory services in all outlets that provide services for Gold and Gold Select customers.

In terms of structured products, the Bank further developed offer of structured bonds of other issuers and investment life insurance and maintained its competitive market position in this respect. The Bank offered 40 subscriptions for structured bonds addressed to CitiGold and CitiGold Select customers in 2013. The structured bonds were denominated in PLN (37 subscriptions), USD (2 subscriptions), and EUR (1 subscription).

The product offer was addressed both to customers interested in solutions which offer coupons indexed to WIBOR and customers interested in direct investments in Polish and foreign equities and commodities or related to investment unit value from issuers providing full or conditional protection of invested capital at maturity.

With growing customer interest in corporate and government bonds, the Bank participated in the transactions with customers in Treasury bonds denominated in multiple currencies and in corporate bonds not admitted to public trading in Poland.

In July 2013, the Bank extended access for customers to dual currency investments through a new Citibank Online platform channel and enhanced this offer by, i.a., adding new currencies and periods of the investment product agreements.

In cooperation with Dom Maklerski Banku Handlowego S.A. and as part of the brokerage service of accepting and transmitting orders, the Bank supported 6 public offerings of securities by accepting subscriptions for investment certificates of closed-ended investment funds, stocks and bonds.

The total value of funds managed through investment products (including certificates of deposit, dual currency investments, investment deposits and insurance products) purchased by retail customers through the Bank increased 11.3% year on year at the end of 2013.

The above growth was mainly related to local investment funds, funds in brokerage accounts maintained by DMBH and structured insurance policies (life insurance with an embedded derivative).

Insurance products

In terms of insurance products, in 2013, the Bank continued initiatives aiming at growing the insurance sales level and enhancing the insurance offer.

The Bank launched a new insurance product for credit card holders offered through a telephone campaign. The "Your Protection" (Twoja Ochrona) insurance product provides cover mainly against accidental death of the insured. Over 3 thousand customers purchased this product in 2013.

The Bank continued to enhance its offer of regular savings and investments. In June 2013, the Bank launched a modified insurance with insurance EUR and USD equity funds – Portfel Inwestycyjny Premium (Eng. Premium Investment Portfolio). These modifications introduced to make the offer more attractive concerned mainly the new funds and more attractive financial parameters of products for customers.

In cooperation with PZU Życie S.A., the Bank offered 2 subscriptions for individual unit-linked insurance products (embedded derivatives life and endowment insurance) in 2013.

6. Development of distribution channels

6.1 Branch network

Smart Banking Ecosystem

Given the changing customers' behavior, a dynamic growth of modern technologies and executing on the strategy to be an efficient bank, on 22 October 2013 the Management Board of the Bank resolved to transform the consumer distribution system towards the Smart Banking Ecosystem and optimize the operating model to further improve operational efficiency of the Bank.

The Smart Banking Ecosystem represents the future of retail banking which in response to rapidly changing customer trends and preferences offers innovative Smart branches. Located in the places frequently visited by customers, the Smart branches are to be the high-tech-enabled place allowing customers to bank at any time and any place using the state-of-the-art mobile and online tools. This is a continuation of the 2010 strategy that focuses on the bank's presence in the places most frequently visited by the target customers and concentration on the markets with the highest growth potential.

Making decision to open SMART outlets across G9, the Management Board also decided to exit 19 retail banking outlets located in smaller municipalities outside the target markets. The customers from these locations will be offered access to banking services through a centralized sales unit, CitiPhone services and internet and mobile platforms.

The pilot Smart branch was launched in September 2013 in Galeria Katowicka. In December 2013, the Bank opened another Smart branch in Galeria Mokotów, Warsaw. The design of the branches encourages customers to use mobile and online banking and enables to deepen customer relationship. In smart branches customers are able to effect basic transactions by themselves (e.g. make a transfer or fill out application for a new product) using intuitive tablets or touch screens. The main role of the advisor has been shifted to precisely identify the customer needs. The Smart Banking Ecosystem introduces a number of enhanced processes – at the end of 2013, an average waiting time for account opening in Katowice Smart branch was 13 minutes with the record time of only 7 minutes while issuing a new credit card took 70 minutes on average from submission of the application in the branch (targeted waiting time is 15-20 minutes).

Additionally in 2013, the Bank was working to improve the quality of CitiGold customer service in dedicated branches. The aim behind these efforts was to improve the sales of the Bank's products by, for example, change in the management and sales coordination models. The plans included also an increase of human resources and expansion of CitiGold customer service areas. As part of these plans, CitiGold branches in Wrocław at 7a Powstańców Street and in Łódź at 5 Konarskiego Str. were redesigned to deliver on the CitiGold segment development strategy.

At the end of 2013, the branch network of the Bank comprised 65 outlets. As part of optimization actions, the Bank closed the operating activity of selected branches in Białystok, Bielsko Biała, Bytom, Chorzów, Elbląg, Jelenia Góra, Kalisz, Katowice, Kielce, Kraków, Lublin, Pabianice, Płock, Rybnik, Rzeszów, Sosnowiec, Toruń, Tychy, Warszawa, Wrocław, Zabrze and Zielona Góra.

Due to the banking system upgrade conducted in July 2013, the classification of the branches into L and M was no longer applied. At the same time, in accordance with the CitiGold segment development strategy, the additional classification based on the service models was maintained. According to this strategy, the branches have been classified into: HUB Gold (branches with separate lounges for CitiGold), Blue (branches with no separate lounges for CitiGold customers), Investment Center and Smart branches.

Number of branches (at the end of period)

	31.12.2013	31.12.2012	Change
Number of branches:	**65**	**88**	**(23)**
HUB Gold	11	12	(1)
Blue	50	74	(24)
Investment Center	2	2	-
Smart branches	2	-	2
Other POS:			
Financial agents (Open Finance, Expander and other)	274	412	(138)
Airports	4	7	(3)
Shopping malls and cinemas	70	17	53
Cash points (Billbird and Brinks)	11	20	(9)
Own ATMs	93	115	(22)

6.2 Internet and telephone banking

Mobile banking

In 2013, the Bank made a number of Citi Mobile promotional activities. In addition to promotional activities, in the first half of 2013, the Bank introduced 'mobile stands' in all its branches where customers could learn more about Citi Mobile in the presence of the advisor. In the second half of 2013, Citi Handlowy launched Citi Handlowy for iPad application that quickly managed to become one of the most frequently downloaded financial application inPpolish App Store (since its launch, the system recorded 6.4 thousand downloads of the application).

At the end of 2013, the number of Citi Mobile active users, i.e. users who accessed mobile banking at least once per month was 51 thousand, which represents an increase of 74% versus the year-ago period. The active mobile users constituted 7% of the total Citi Handlowy customers – an increase by 4p.p. versus 2012.

Since launch of Citi Mobile banking platform in May 2010, the number of users who downloaded and logged onto the application once at minimum was 170 thousand.

In 2013, the Bank reported a growing interest in FotoKasa functionality enabling to make fast payments by means of scanning 2D codes which contain data necessary to make a bank transfer and are placed by service providers on paper or electronic bills. In 2013, the Bank's customers made 18 thousand transactions with the use of this service totaling to PLN 3.4 million (growth by 378% in terms of transactions and by 475% in terms of transaction value versus 2012).

Online Banking

As a result of online banking promotional activities and banking product distribution, the number of active Citibank Online user, i.e. users who accessed Citibank Online at least once per month was 316 thousand at the end of 2013, representing an increase of 9% YoY.

At the end of 2013, Citibank Online users constituted 41% of the total Citi Handlowy customer portfolio – an increase by 6 p.p. YoY.

In 2013, the Bank reported a growth in the number of active digital users, i.e. users who accessed online banking (Citibank Online, Citi Mobile or Citi Handlowy for iPad) using digital tools. At the end of 2013, this number was 367 thousand – an increase by 15% YoY. The active digital users constituted 48% in the total customer portfolio of the Bank at the end of 2013, representing an increase by 10 p.p. versus 2012.

Transactions executed through mobile and online banking accounted for 93% of all financial transactions, representing an increase by 4 p.p. versus 2012.

In 2013, online channels were an effective customer acquisition tool for the Bank. The online channels accounted for 8% and 5% of the total acquisition of credit card and cash loan customers, respectively. In 2013, the Banks' deposit products were introduced into online offer. Their online acquisition constituted 10% of the total CitiGold and CitiForward acquisition.

Two new functionalities were launched in 2013 for Citi Handlowy online banking users: launch of online Gold customer acquisition campaign and Online Fullfilment process enabling customers to conclude agreements with the Bank for certain products (credit facility and soon, cash loan and current accounts) through Citibank Online with no need to visit the branch or submit the original documents.

Social Media

In 2013, the Bank continued its presence in social networks that continued to be an important communication channel. The Bank concentrated on improvement of service quality, the result of which is a dedicated application allowing for contact with the Customer Advocate. At the same time, average time of responding to enquiries made by social media users was shortened to 31 minutes. The banking fanpage Rabatowcy.pl had over 110 thousand fans at the end of 2013 compared to 100 thousand fans at the end of 2012. Initiatives taken on Facebook to promote Citi Mobile helped to build a community of over 70 thousand fans at the end of 2013 compared to 60 thousand fans at the end of 2012.

6.3 Direct and indirect customer acquisition

Direct Sales

In 2013, the direct sales channel was the main channel of the Bank to acquire new customers. Also, the Bank developed its direct distribution network by opening new POS in shopping malls and cinemas. This number went up to 70 at the end of the year thanks to cooperation with new direct sales and telesales agencies.

Number of direct sales and telesales agents went up 26% versus 2012 and there are plans to grow this number in 2014 by another 35%.

Network development was accompanied by optimization activities including both costs and sales processes, which together translated into 50% increase of unit effectiveness versus the prior year period. Digitalization of the sales process will play an important role in the plans for 2014, which, in addition to further effectiveness improvement, should also bring greater customer satisfaction.

Citibank at Work

Citibank@Work is a sales channel with an individual deposit and credit offer addressed to employees of companies that are corporate customers of the Bank.

In 2013, Citibank@Work changed its sales strategy to shift its acquisition efforts towards CitiForward (with minimum income of above PLN 5 thousand) and CitiGold customers.

In 2013, Citibank@Work increased CitiForward sales over five times versus 2012, with a stable sales level in CitiGold segment.

7. Changes in IT technologies

In 2013, in the area of technology, some projects were implemented to ensure a stable development of the technology platform in the areas of consumer banking and corporate banking, in line with the current strategy of the Bank, and to reduce technology costs, coupled with a simultaneous development of an advanced product range and an improvement in quality of products and services. At the Bank, the IT processes are run in accordance with best standards, which was confirmed by a positive outcome of the regulatory audit carried out in February 2013 to check compliance with the following standards: ISO 20000 (IT service management), ISO 27001 (information security management) and ISO 22301 (business continuity management).

The following solutions were introduced in 2013:

- UTP (Universal Trading Platform) system was implemented to ensure collaboration with a new transaction platform of the Warsaw Stock Exchange;
- IT systems were upgraded in Consumer Bank;
- First two innovative branches were opened as part of the new distribution model - so called Smart Outlets (in Galeria Katowice and Galeria Mokotów shopping malls);
- First network connections for B2B services were migrated to upgraded B2B network infrastructure, in accordance with requirements and needs of the Bank and its clients (WSE);
- Consolidation of the whole voice recording environment at the Bank was completed – as a result the Bank has now one integrated and consistent voice recording system;
- New SORBNET2 system for large amount settlements effected by the central bank was implemented;
- Infrastructure and a system solution were built to enable corporate clients to submit orders and to receive money transfers online (Express Elixir);
- Advanced RCX system was implemented and all the transactional channels were migrated from the RCS system, which is to be phased out;
- Citiconvert system was migrated to a new PTR, which has increased transaction data processing capabilities for corporate clients;
- More new products were launched on the innovating trade platform (Trade Back End, Trade Front End and Trade Services) for trade finance services (recourse and nonrecourse factoring, import letter of credit and vendor finance) together with advanced anti-fraud module;
- Advanced Sonar system was implemented to replace Call Manager in Treasury;
- Bank's systems were adapted to MasterCard Association's requirements for local payments;
- New Online Fulfillment process was implemented to enable retail customers to sign electronic agreements for banking products and, in consequence, to reduce operating expense by eliminating paper-format agreements.

Works are pending to implement the following modifications, which will affect the Bank's operations in the near future:

- Bank's systems will be adapted to new EU directives relating to capital requirements (CRD IV (Basel III)) and derivatives (EMIR);
- The CitiRisk integrated system will be implemented in the risk management sector;
- Development of the trade finance electronic platform will be continued – other products will be added (e.g. Recourse Distributor Finance, Bill of Exchange Discount or Trade Revolving Facility);
- A project is in progress to implement a new version of Citibank Online with aim to upgrade and enhance the functionalities of the online platform of the Bank by adding new products and services and a user friendly interface;
- A new ECS+ platform will be implemented for processing of commercial cards for corporate clients and a newer version of the Prime/Online platform will be launched to support prepaid cards;
- The main system that supports Treasury operations, i.e. Kondor+, will be replaced with eDealer in order to reduce development and operating costs and to unify the platforms with regional partners;
- Implementation of SIP technology will be continued at subsequent branches of the Bank to allow for the utilization of central telecom lines from Warsaw at a branch, instead of local ones, in order to optimize the operating support model and costs of telecom services;
- Implementation of the Desktop Optimization Initiative will be continued to ensure the efficiency of, to upgrade, and to optimize the computer environment at the Bank, with the use of environment virtualization that will reduce costs and improve data safety in the future;
- CitiCash, a new electronic platform for processing of cash products, will be launched in the Corporate Bank segment;
- Implementation of requirements imposed by Recommendation D on the improvement of management of information technology and computer and telecom environment security, issued by the Polish Financial Supervision Authority in January 2013 – the gap analysis was completed in June 2013 and the required modifications will be implemented by the end of 2014.

8. Equity investments

All capital investments of the Group are allocated to either the strategic portfolio or the divestment portfolio. In 2013, the Group continued its previous capital investment policy.
In managing the strategic portfolio it sought to: maximize returns in the long run; increase the market share; develop cooperation with the Bank; and expand the Bank's product range. In managing its divestment portfolio the Group aimed to optimize transaction gains and to minimize the inherent risks of such transactions.

8.1 Strategic portfolio

The strategic holdings include financial institutions that expand the product range of the Bank, strengthen its reputation and reinforce its competitive advantage in Poland's financial services market.

The strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank is a minority shareholder here, but considers them strategic in view of the operations they pursue and their relationships with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and proactively shape their strategic directions of development to the extent possible within limitations of its voting rights. The Bank's overriding goal in the exercise of its corporate governance powers towards those companies is to ensure their stable development and continuation of their present operations relied on by financial market participants, including the Bank.

8.2 Divestment portfolio

The divestment holdings are companies that are not considered strategic investments by Bank. These are companies held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute capital transactions. Some of these divestment holdings are restructured exposures, originated from debt-to-equity conversions performed by the Bank.

The strategic goal adopted by the Bank for companies in the divestment portfolio envisages a step by step reduction of Group's investments. It is assumed that individual companies will be sold whenever the market conditions are most favorable. The divestment portfolio comprises equity investments without a pre-determined rate of return. The Bank does not plan any additional equity investments intended for subsequent divestment. However, the divestment portfolio may grow if the Bank chooses to convert its receivables to equity and wherever the Bank acquires investments in the course of its operations.

Special purpose investment vehicle companies

As of 31 December 2013, the Group conducted its capital investment operations through its two investment companies. Their operations were financed through reverse capital increases and from their own earnings. As a result of the Group's strategy to reduce operations carried out by investment companies, the Bank sold all shares in Handlowy Investments II S.a.r.l. on 26 July 2013 and thus derecognized its shares in the Bank's accounting records. As the Group intends to continue that strategy, it is likely that other investment companies will be successively divested or liquidated.

On the basis of data available as of the date of preparation of the financial statements (preliminary, unaudited), the key financial highlights for those entities, as of 31 December 2013, were as follows:

Entity	Headquarter	Authorized capital held by the Bank [%]	Balance sheet 31.12.2013 PLN '000	Equity 31.12.2012 PLN '000	Net financial profit/ loss for 2013 PLN '000
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00%	10,947	10,939	103
Handlowy Investments S.A.*	Luxemburg	100.00%	44,041	43,278	(43)

** Financial data of Handlowy Investments S.A. originate from the financial statements prepared as of 28 February 2014, which is the entity's balance sheet date.*

9. Awards and honors

In 2013, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious awards and honorary titles:

- Citi Handlowy was ranked first, for the fifth year in a row, in the FX ranking of **Euromoney** (British financial magazine), with the largest share in FX turnovers with corporate clients. The Bank's share was nearly double the share of the next bank in the ranking. The Bank also maintained its lead in the segment of corporations and financial institutions, where it was the winner for the third consecutive year;
- Citi Handlowy was ranked second in **Euromoney Cash Management Survey 2013**, which assessed transactional banking services in Central and Eastern Europe. The Bank went up by two places as compared to the previous year. The Cash Management Survey is a prestigious ranking published for many years. It is prepared on a regular basis, once a year, by Euromoney Magazine, which, for the purposes of this year's edition, gathered information from 24,000 international corporate clients from all countries in the world;
- Citi Handlowy's **achievements in Poland's capital market** were again appreciated by the Warsaw Stock Exchange (WSE), which awarded the Bank for the highest turnovers in the spot market of Treasury BondSpot Poland in 2013. Citi Handlowy's Brokerage House (DMBH) was also honored in the Stock Exchange Summary 2013. For the fifth consecutive year, DMBH was awarded for the largest share in in-session equity turnovers in the main market. It was also honored, for the second time, for the largest share in turnovers of non-Treasury bonds in all Catalyst markets. The WSE Management Board also rewarded DMBH with its first Broker of the Year 2013 title;
- Citi Handlowy was the first bank in Poland that received an **ISO 14001 certificate** and, thus, achieved the full-scope certification of its environmental management system. Such certificates were also granted to DMBH and Citi Service Center. The certificate was issued by the British Standard Institute and confirms top quality of the environmental management system. It covers activities in the area of both financial services and ongoing operations;
- Top Rated, i.e. the highest assessment, was granted to Citi Handlowy in the main category of "Leading Clients" in the cyclical customer survey by the **Global Custodian Magazine**. The magazine awarded the Bank for its custody operations in Poland in the annual ranking prepared on the basis of assessments provided by clients from all over the world. In the Cross-Border Non Affiliated category (medium and smaller clients), Citi Handlowy was assessed as Commended (which means recommended here);
- Citi Handlowy received the prestigious **Top Employers** certificate for the third consecutive year and, thus, joined the group of organizations that meet the highest HRM (Human Resources Management) standards. As in the previous years, an independent survey by the Corporate Research Foundation (CRF) verified the key HRM areas, like training and development, workplace conditions and organizational culture or pay and benefits;
- Citi Handlowy was again one of Top 3 **Friendly Banks for Traditional Customers.** The place in this ranking by **Newsweek** depends on the results of a mystery shopper survey carried out by auditors from MillwardBrown SMG/KRC. Banks are assessed in three categories: friendly bank for traditional customers, for online banking customers and for mobile banking customers. To win a medal in traditional banking, a bank should get the highest marks for quality of service, functionality of outlets and methods used to attract and retain customers, effective recognition of their needs and appropriately tailored product range;
- **Respect Index** - Citi Handlowy was chosen for the Respect Index for the sixth time. As one of the two banks in the index, it **has been consistently securing its participation in the index since it was published for the very first time.** The Respect Index is the first index of responsible companies in Central and Eastern Europe. To qualify for it, a company must meet high corporate governance, information management and investor relations standards;
- The results of the 7th edition of the **Dziennik Gazeta Prawna Responsible Companies Ranking** were published on 23 April 2013. Citi Handlowy, included in the ranking since it was launched, retained a high place in its sector (banking, financial services and insurance) and was ranked second. In the general ranking it was placed twelfth, as in the previous year. The Responsible Companies Ranking was published for the seventh time and is one of the most prestigious rankings of kind in Poland. Over 150 companies have participated in its all editions. This year the questionnaire was sent to the largest organizations operating on the Polish market, which had to answer 60 questions in the five CSR areas: responsible leadership, communication with stakeholders, social commitment, responsible management and social innovations. The survey is modified each year to take account of changes in the market. The maximum score in each of the areas is 100, which means that all of them are considered equally important;
- The **Building Financial Independence of Women** Program organized by the Leopold Kronenberg Foundation at Citi Handlowy and the Women's Rights Center was among Top 10 initiatives rewarded in the **"Together We Build the Social Capital"** competition. Its goal is to emphasize the benefits resulting from the cooperation between business and non-governmental organizations (NGOs) and is part of the project implemented by the Polish Confederation of Private Employers Lewiatan and Deloitte within the framework of the platform dedicated to the cooperation between NGOs and business. In addition to Top 10 best practices, 26 projects were honored, of which 6 were coordinated by the Leopold Kronenberg Foundation at Citi Handlowy;
- As many as 10 CSR initiatives of Citi Handlowy were commended by the Responsible Business Forum its 11th report **"Responsible Business in Poland. Good Practices"**. It has been published since 2002 and is the only such study, which summarize key issues in the area of CSR business activities;
- Citi Handlowy was awarded in the **"Sustainable Growth Leaders"** competition for its financial education program. Eligible participants are companies that can successfully sustain a balance between their business activities and the principles of sustainable growth. It is organized by the Forbes monthly magazine and PwC (consulting company).

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

In the end of 2013, Fed (U.S. central bank) started to trim down its assets purchase program, which has exerted a relatively limited impact on Polish assets to date, especially against the backdrop of assets from other emerging countries. However, this process will be continued and, moreover, there is a risk that Fed will start interest rate hikes sooner than expected by consensus.

If the sensitivity of investors and emerging assets to such course of events turns out to be higher than expected, it could trigger a sudden departure of portfolio investments from emerging markets. Most likely, such trend would not spare Poland either, leading to a significant increase in risk premiums and Treasury yields and a depreciation of Poland's currency. And volatile financial markets in emerging countries could deteriorate confidence ratios and sentiment among both businesses and households, as well as undermine the belief that recovery and its size is sustainable.

Another threat to Poland's economy is a possible decline in exports from emerging markets to developed countries, leading to a decrease of imbalances in foreign trade, i.e. a lower foreign trade surplus in emerging countries and a lower deficit in developed economies. Such a structural change could be a result of the benefits of globalization and integration in global trade being gradually faded out and a raising popularity of protectionist policies in the wake of the economic problems observed in developed countries in the last years. In consequence, the recovery in developed countries may be not as useful to emerging countries as during a few previous business cycles.

The size of the gradual slowdown in China's economy still puts global growth at a material risk, especially in the context of existing internal imbalances, i.e. high private debt and a decline in the potential GDP growth rate. A considerable GDP slowdown in China and globally would adversely affect GDP in Poland, leading to a deterioration in the financial condition of Polish companies and households.

1.2 Regulatory risks

Any changes of economic policy or in the legal system could have a considerable impact on the financial position of the Group. For banking sector regulations, acts of Parliament and related secondary regulations are of particular importance, including regulations of the Minister of Finance, resolutions of the Management Board of the National Bank of Poland ("NBP"), orders of the President of the NBP and resolutions of the Polish Financial Supervision Authority ("KNF").

Of those referenced to above, the most fundamental regulations include:

- acceptable concentration limits for loans and total receivables (Banking Law);
- maximum equity that may be invested in capital markets (Banking Law);
- liquidity, solvency and credit risk standards (KNB/KNF resolutions);
- risk management at banks (Banking Law, KNB/KNF resolutions);
- mandatory reserves – establishment and transfer (NBP Act, Banking Law, KNB/KNF resolutions, resolutions of the NBP Management Board);
- taxes and similar charges;
- Act of July 7, 2005 amending the Civil Code and certain other acts limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans;
- limitations on granting foreign currency mortgage loans that result from Recommendation S and Recommendation S(II) of the Banking Supervision Commission (KNB);
- Competition and Consumer Protection Act of 16 February 2007;
- Act on Countering Unfair Market Practices of 23 August 2007;
- Act on Countering Money Laundering and the Financing of Terrorism of 16 November 2000;
- Consumer Credit Act of 29 July 2001;
- Consumer Credit Act of 12 May 2011;
- Payment Services Act of 19 August 2011;
- Trade in Financial Instruments Act of 29 July 2005, and its amendment planned in 2014;
- Act of 6 December 2013 amending certain acts in connection with determination of rules of distribution of pensions from funds accumulated in open pension funds;
- Bank Guarantee Fund (BGF) Act of 14 December 1994 – The Act of 26 July 2013 amending the BGF Act and certain other acts came into force on 4 October 2013. Pursuant to it, the BGF may, upon the request of the minister competent for financial institutions, issue capital increase guarantees (so called recapitalization guarantees) for domestic bank in the course of a restructuring procedure. Such guarantees will be financed from the stabilization fund, which will be created as a new own fund of the BGF. The stabilization fund will be fed with prudential fees contributed by entities covered by the guarantee system (i.e. banks). The prudential fee will be calculated as the product of a rate up to 0.2% and the basis of calculation of the annual fee. The prudential fee rate for a given year will be determined, within the above restraints, by the Council of the Bank Guarantee Fund, which should take into account the situation in the financial sector and its macroeconomic environment;
- Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 and the Commission Delegated Regulation supplementing the above regulation. The regulation, together with its secondary acts, has introduced additional rights and obligations of the parties to an OTC derivative transaction to improve the safety and transparency of such trades. As a matter of principle, the regulation applies (with specified exceptions) to OTC derivative transactions (contracts), i.e. transactions (contracts) not executed in a regulated market. The obligations resulting from the above regulation are binding not only on professional financial institutions (banks, brokerage houses, etc.), but also on each entity that is an undertaking and executes derivative transactions (contracts) ;
- Recommendation T of the Polish Financial Supervision Authority concerning good practices in the area of management of risks of retail credit exposures;
- Recommendation I concerning FX risk management at banks and the principles of execution by banks of operations exposed to currency risk;
- Recommendation M of the Polish Financial Supervision Authority concerning operational risk management at banks.

Regulations that may affect operations of the Bank in subsequent periods:

- Recommendation U of the Polish Financial Supervision Authority – On 30 December 2013. The Office of the Polish Financial Supervision Authority submitted for consultations a draft of Recommendation U concerning bancassurance good practices. The recommendation is to come into effect no later than 1 November 2014 and may significantly affect the manner of distribution of insurance products by banks, relationships with customers and management & monitoring of a bancassurance policy. The key issues covered by the recommendation include: regulation of the obligations of the management board and supervisory board in respect of implementation and enforcement of a bancassurance policy, principles of operation of banks so that they do not create any conflict of interest (and especially a situation where a bank simultaneously and actually acts as the policyholder and the insurance agent), the requirement to unambiguously notify a client of the bank's role (agent or policyholder), the principle under which a bank is obliged to implement prudent information policy towards clients, the obligation to ensure a client a possibility to choose an insurance product he or she wants to buy and an insurer with which he or she wants to cooperate, the obligation to ensure a client, or his or her heirs, a possibility to directly enforce claims, where the bank has decided not to claim any indemnity from the insurer, the requirement that the fee due to a bank for offered insurance products should be determined in a relevant proportion to the costs incurred by the bank, the requirement that a bank should have in place an effective internal control system in the area of bancassurance (including a solution to monitor processes used to offer insurance products and an appropriate method of settlement of revenues relating to such offering);

- Recommendation D concerning management of IT areas and safety of the computer and communication environment at banks. The recommendation has replaced the previous Recommendation D. As compared to the previous version of Recommendation D, provisions have been implemented in relation, among other things, to management of data (including data quality), the principles of cooperation between business and technology areas, the management information system for IT areas and safety of computer and communication systems and so called cloud computing. The supervisory expectations have been updated and clarified as regards strategic planning in the IT area and safety of the computer and communication environment, implementation of new and modification of existing IT solutions, cooperation with third party service providers and management of risks connected with safety of the computer and communication environment;
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 ("CRD IV") on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and 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 ("CRR") – CRD IV regulates, inter alia, issues relating to establishment of banks, capital buffers, supervision, management and corporate governance of banks and investment firms. The CRR contains regulations regarding, among other things, own funds, capital requirements, liquidity and leverage. The Directive is required to be transposed into Polish law, while the Regulation will apply directly in all Members States of the European Union. The obligatory national transposition of the Directive should be complete by 1 January 2014 and the CRR will come into force the same day (relevant national provisions will be replaced with corresponding CRR provisions). In connection with the above, a majority of prudential regulations applicable in Members States will be repealed. The KNF is working on a draft amendment to the Banking Law. It will cover the provisions introduced or modified by CRD IV. In addition, the provisions included in the CRR will be deleted. Pursuant to CRD IV and CRR, so called regulatory technical standards will be implemented in subsequent years.

1.3 Competition in the banking sector

In Q1, 2013, the GDP growth rate hit rock bottom since Q1 2009. The first harbingers of recovery became visible only in the second half of the year. Together with historically low interest rates, this created unfavorable conditions for the financial sector. The pressure on banks to achieve satisfactory financial results led to cost reductions and changes in fee and commission rates. However, those initiatives proved to be insufficient to fully offset the adverse factors and, in consequence, the operating efficiency ratio slightly deteriorated.

The year 2014 will add new challenges affecting the revenues of the banking sector as a result of a decline in interchange rates and the introduction of an additional contribution to the Bank Guarantee Fund in the end of 2013. On the other hand, banks will gain an opportunity in connection with the expected expansion of their lending activities in the area of consumer and corporate loans.

Mergers & acquisitions intensified in the financial sector in the recent years. However, it is likely that the regulator will resist any attempts to continue that trend, as it believes, according to its statements, that the current concentration level in the banking sector is "near optimum". Mergers are still probable among smaller players, which will seek opportunities to improve their efficiency by achieving the adequate scale of operations.

Competition from nonbanking lenders, which operate on the basis of less restrictive regulations than banks, creates a more and more serious threat to the banking sector. The inability to verify the actual debt of borrowers served by nonbank firms and, thus, the incomplete assessment of their creditworthiness, may lead to excessive indebtedness of customers and their failure to repay required credit installments. As a result, such companies put at risk the quality of credit portfolios of banks.

Despite intensifying competition and a sluggish recovery in the economy, Poland's banking sector is still an attractive and highly profitable market.

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

2.1 Liquidity risk

he mismatch between maturity dates of loans and underlying deposits used to finance them is a typical feature of banking activity, and also occurs at the Bank. It can give rise to problems with current liquidity in case of a build-up of large payments to customers. The management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Asset Liability Committee (ALCO) of the Bank, which defines the strategy that is implemented by the Treasury Division.

At the Bank, the key ALCO tasks include: to manage the structure of the balance sheet in order to increase its profitability, to determine acceptable limits of financial risk for specific areas of operation, to coordinate the interest rate pricing policy, and to make decisions concerning the transfer pricing system used within the Bank.

As part of liquidity risk management, ALCO is responsible for the development and implementation of a uniform liquidity risk management policy at the Bank and approves annual liquidity plans and plans of financing of the Bank's assets, as well as liquidity limits for the Bank. It also signs off liquidity contingency action plans and determines thresholds (limits) for particular sources of funding and carries out regular reviews of liquidity risk reports.

The deposit base of the Bank is stable and diversified. Furthermore, the Bank has a large portfolio of liquid securities, assured access to interbank funding and high own funds. The level of liquidity risk was low in 2013.

2.2 Foreign exchange risk

The Bank executes foreign exchange operations both on behalf of its customers and on its own account, whilst holding any open FX positions within established limits. As a result, the Bank is exposed to exchange rate risk, which is controlled by the Market Risk Department in cooperation with the Treasury Division (i.e. the unit responsible for management of liquidity and the foreign exchange position). In 2013, the market risk of the Bank's own positions was low.

2.3 Interest rate risk

As other Polish banks, the Bank is exposed to a risk arising from the timing mismatch of changes in interest rates applicable to its assets and to their underlying financing liabilities (so called revaluation date gap risk) and from the sensitivity of value of debt securities and of interest rate derivatives to changes in market interest rates (pricing risk). In respect of revaluation date gap risk, interest rate risk can arise when a decline in income caused by lower interest rates on granted loans proves impossible to offset through a corresponding reduction in interest rates 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. As far as pricing risk is concerned, interest rate risk may occur when changes in market rates have an adverse effect on valuations of instruments in the trading portfolio and, consequently, on the Bank's financial result and on valuation of the portfolio of securities available-for-sale and, thus, on the Bank's own funds. The management of interest rate risk is a responsibility of the Bank's Asset Liability Committee (ALCO), which, among other things, determines the pricing policy of the Bank for interest rate risk. In 2013, the level of interest rate risk ranged between moderate and high both for trading portfolios and bank 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 a transaction is not settled when due, the Bank will be exposed to an additional risk of contract value volatility. 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-level limits are established that support the process of management and ongoing monitoring of the credit portfolio. The process of proactive portfolio quality management covers not only appropriate ratings assigned to exposures, but also appropriate internal classifications assigned to them, recognition of their impairment and application of relevant corrective or collection actions. For credit exposures, the Bank makes impairment write-offs as required by law. The Management Board of the Bank is of the opinion that the current level of impairment write-offs is adequate. As it is always likely that the external environment can change or other circumstances that could adversely affect customers may occur, there is no certainty that a future need to make adequate impairment write-offs for the existing credit portfolio will not have any adverse impact on the Bank's financial position and that the existing impairment write-offs and collateral will prove sufficient to absorb possible lending losses.

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 business practices or market conduct, as well as legal risk and compliance risk (i.e. the risk of failure to comply with applicable laws and regulations). The Bank manages the operational risk in its activities on the basis of an assumed definition coincident with the one presented above.

The level of operational risk appetite is considered low for the Bank, hence the family of operational risks (including technology risk, outsourcing risk, fraud risk, money laundering risk, information security risk, external event (continuity of business) risk, tax and accounting risks, compliance risk, legal risk and model risk) is mainly managed via an effective internal control environment and involvement of dedicated units in the management of individual risk categories.

The Bank manages operational risk with the use of tools, techniques, systems and applications the effectiveness of which is verified, confirmed and improved on a regular basis.

In order to establish a consistent, effective and value-added system of operational risk control, assessment, monitoring, measurement and reporting and to ensure the overall effectiveness of the internal control environment throughout, the Bank has implemented an operational risk management policy. The effectiveness of internal controls deployed by the Bank is also assessed within the framework of the Bank's operational risk self-assessment process.

Summary operational risk reports are discussed by Committees that support the Supervisory Board and the Management Board of the Bank. Such reports include data necessary to monitor the Bank's operational risk profile (including results of internal and external audits, self-assessment process, operational risk indicators, operational losses, CoB and information security updates, business issues and corrective actions, capital requirements and stress tests).

In the course of the process applied to oversee operational risk management and the process used to manage operational risk, the Supervisory Board and the Management Board of the Bank are supported by relevant Committees and a separate and independent unit responsible for operational risk management.

In 2013, internal audits were carried out as expected and efficiently mitigated key operational risk. Any weaknesses and issues identified in control processes had no significant impact on the Bank's ability to achieve its business objectives. The effective internal control environment prevents the recurrence of issues and losses.

In 2013, gross total operational losses accounted for 0.71% of revenues for 2013 (this ratio covers the losses recognized in the financial result).

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

1. General development objectives of the Group

In 2013, the Bank continued its Strategy for 2012-2015, adopted in 2012. It is based on the existing four pillars: customer segmentation, business model, quality and innovation, and effectiveness.

The Group starts various initiatives to improve the attractiveness of its services, while focusing on areas where it has a significant competitive advantage over its competitors. Those initiatives are largely focused on the credit card market and the affluent client segment, while in the companies segment on services dedicated to global corporations and largest local companies. Other vital areas of operations include FX market, transactional services and securities custody services, as well as institutional brokerage activities.

The effective acquisition of new customers in target markets and activities to strengthen relationships with existing customers is still considered top priority directions by the Group. The Bank stays focused on the acquisition of operating accounts in both Corporate Bank and Consumer Bank segment.

Innovation and top quality service are the pillars of the strategy adopted by the Bank. By constantly enriching its product range with innovative solutions that meet both needs and expectations of customers, the Bank is able to effectively compete in the financial services market and set new development trends in the banking sector.

Taking into account still changing needs and expectations of customers, the Bank has decided to focus on the optimization of its distribution network, which is based on the new model outlets, so called Smart outlets, which are situated in large cities and supported by remote channels. The Bank strives to increase sales of its products via mobile solutions by investing in technology development.

The main goal 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, which ensure safety to its customers and their trust to the Bank as an institution. A further improvement in quality of services and processes and investments in new technologies will enable the Bank to develop and launch groundbreaking innovations to strengthen its market position. For customers, a source of value added will be the effective utilization of the global profile of Citi Handlowy, enabling them access to services provided by the Bank from any place in the world.

1.1 Corporate and Commercial Bank

In the Corporate and Commercial Bank segment, the Bank plans to maintain its lead in the segment of international corporations and the largest local companies, as well as to reinforce its position in the SME segment. To this end, it will acquire new customers and expand relationships with existing ones in selected sectors, and to provide support to customers planning regional or international expansion (Emerging Market Champions initiative). The goal of the Bank is to be the Strategic Partner of Polish companies and to proactively support the expansions of Poland's industry. The Bank's long-term ambition is to become the first-choice bank in the SME sector. As far as the product offer is concerned, the Bank also plans to maintain its leading position in the foreign exchange market, in cash management products and institutional brokerage operations.

The Bank intends to enhance its effectiveness by improving processes, to focus on innovations and to raise the quality of its services. In transactional services, the Bank will continue to expand the product range for corporate clients in order to support the acquisition of new customers and to maximize the share of wallet in the case of existing customers. Trade finance products will play a key role in new customer acquisition together with the possible cross-selling of cash management products. The Bank strives to cut the time to market for innovative solutions.

1.2 Brokerage activity

DMBH specializes in services for local and foreign institutional investors, therefore an active approach to the market in which those groups carry out their capital operations is a key success factor for DMBH's activities. A key factor that may significantly affect the position of DMBH is a possible reduction of transfers of new funds to Open Pension Funds (OFE) after participation in the second pillar of the pension system becomes voluntary and as accumulated funds are relocated to the Social Insurance Institution (ZUS) for the OFE members with 10 years or less left to the retirement age (under so called "safety slider"). On the other hand, record low interest rate should increase the inflow of cash to local equity funds and, as a result, lift the demand for shares in that segment.

1.3 Consumer Bank

The Bank will still focus on customer segments and products where it has the competitive advantage. This implies further growth in wealth management and relational banking.

In the area of deposit products, the Bank will concentrate on the acquisition of active customers, mainly in the CitiGold segment, and on ensuring them top service standards. The policy of incentives to encourage customers to build full-scope deposit and investment relationships with the Bank will also be continued – such customers will be offered higher interest rates on their savings account or term deposits. Acquisition efforts in the area of retail deposit products will also be supported by planned changes in the service of Microbusinesses, including a revitalized product range and improved processes.

Substantial emphasize will be put on development of global banking (accounts opened in other countries) and of those features of products and services that make global transactions possible.

Citi Handlowy, as leader in the credit card market, is working on new innovative credit cards, which will meet changing customer needs even better. In subsequent periods, the Bank will also continue to develop its credit card proposal available via online channels.

In the cash loan segment, the Bank will continue its strategy of optimization of the product extension process in 2014. Such optimization efforts will cover, first of all, the process under which such loans are granted via the Citibank Online webbased system.

In 2014, the Bank will continue to expand its retail branch networks towards the innovative model of the so called Smart Banking Ecosystem. Smart banking is an advanced model of service and sale of banking products, based on the effective and flexible utilization of various sales channels, from online banking to flagship branch. The key assumptions of this model include a modernized look of outlets, deployment of innovative technologies to support sales processes and a larger utilization of self-service options for customers. The location of outlets where Citi Handlowy customers spend the most of their time is an integral element of the model. The Bank is planning that 25 Smart outlets will be operating by the end of 2014.

VIII. The Bank's community initiatives and cultural sponsorship

1. Corporate Social Responsibility (CSR)

As an institution, the Bank feels highly responsible towards the society and is sensitive to the needs of its business and social partners. All activities initiated by the Bank are to support the interests of its clients and the communities in which it operates.

The CSR activities of the Bank cover the workplace and market environment, local communities and environment protection. Its strategic goal is to become a company that sets the Corporate Social Responsibility standards, both outside and inside the organization. The Bank continues investments promoting local communities, realized for a public good in such areas as financial education, enterprise promotion, local development and protection of cultural heritage. The mission of the Bank in that area is realized via the Leopold Kronenberg Foundation at Citi Handlowy, established in 1995, recognized for many exceptional achievements.

The social commitment of the Bank is highly appreciated, which is reflected in various independent rankings, like the Respect Index or the Socially Responsible Companies Ranking (for more information on CSR awards see page 124 in this report).

1.1 Relationships with customers – market practices

The mission of the Bank is to play a leading role in Poland's banking sector by offering world class products and top quality services to local and international clients. To this end, various customer-oriented initiatives have been started. Dialogue with customers is a key component of that process. The Bank's goal is to get focused on customer needs and to ensure flexible response to those needs, so that the customer perceives the Bank as a trustworthy partner in our mutual relationship.

Reliable information – ethics in advertising

The Bank has elaborated and implemented the principles of transparent communications with customers. They provide, among other things, for delivery of accurate and transparent product information, execution of understandable agreements and distribution of clear information on costs, risks and possible benefits. Such presentation of a proposal is to enable a customer to make an informed choice. Employees know and adhere to the principles of transparent communications. The policy and standards applicable at the Bank in the areas of top quality customer service, complaint processing and responsible marketing are subject to relevant internal legislations, including the "Advertising Code of Ethics" and the "Ethical Business Practices of Bank Handlowy w Warszawie S.A."

Customer satisfaction surveys

The Bank conducts regular customer surveys, both in Corporate and Consumer segment. The key indicator used to measure the quality of service is the NPS (Net Promoter Score). The NPS is determined based on the question about a recommended bank. The survey covers all client segments at the Bank, the key contact channels, "moments of truth" (crucial moments when a customer meets the Bank, e.g. a complaint or purchase of a product). The questionnaires are agreed with all units of the Bank that are involved in the customer service process and development of products and services for customers.

Survey results are analyzed and its final outcome is the base for an action plan aimed at increasing customer satisfaction. As a result, the Bank has been awarded with a high score in the research performed by the independent research agency TNS OBOP. The Bank achieved the highest NPS outcome (57%) in the CitiGold customer segment.

Complaints

The Bank is still the leader among financial institutions in terms of time to process a complaint. A vast majority of complaints in Consumer Bank are processed in 3-4 days, while the market standard is as long as 14-30 business days. For the Bank, the results of complaint analysis are the launch pad for various actions to improve customer service quality.

The Bank has an in-house Customer Advocate whose job is to represent the interest of a customer inside the organization. He or she receives not only complaints from customers, but also their suggestions of changes. The Advocate examines all such notifications and, if possible, recommends activities to improve the quality of services. Customers are informed how their comments and suggestions have been used.

Data protection and customer privacy

The Bank commits itself to protect private and confidential information about its customers and to ensure that such information is properly used. Those principles are described in the "Principles of protection of personal data at Bank Handlowy w Warszawie S.A." The Bank collects, keeps and processes personal data of customers in accordance with local legal requirements in order to offer to its customers products and services that better meet their financial needs and enable them to achieve their financial goals. The Bank makes every effort to implement and keep necessary systems and technologies and to properly train any employees who have access to such information. Third party service providers that cooperate with the Bank are likewise obliged to protect the confidentiality of data, including personal and confidential data received from the Bank. The Bank also complies with its own stringent internal standards and regulations concerning the confidential nature and security of information and personal data (IT system management standards, Information Security standards and general security standards). In addition, every employee of the Bank is obliged to protect any personal and confidential data of customers, while making sure that such information is only used for legitimate purposes connected with performed work and is only made available to authorized individuals and organizations, as well as stored in a correct and safe manner.

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 ensures its employees a save and friendly workplace, where they can work with all their energy and the feeling of personal achievements and satisfaction, and are fully aware of the available individual development opportunities. Employee development is supported by training, participation in challenging projects and the appraisal process, where employees receive feedback on their strengths and areas which they still should improve. The Bank has implemented a HR policy connected with objectives that are documented, measurable and tracked on an ongoing basis.

The employee selection process is extremely important for development of the Bank. The Bank strives to develop its personnel. To this end, all employees have access to the internal Citi Career portal, where every employee may apply for any job he or she finds interesting in the structure of the Bank and any business in the Citigroup.

In addition to salary, the Bank has a variety of benefits and perks for its employees to satisfy their personal and social needs.

They include healthcare packages, life insurance, an employee pension plan and a partial refund on language courses and tertiary education. The Bank also allows for flexible working hours in order to enable its employees to better fulfill their personal and professional obligations.

To ensure safe workplace, the Bank strives to optimize workplace conditions for all employees, with a particular focus on work health and safety issues.

Employee satisfaction surveys

Every year, the Bank carries out an employee opinion survey, called the Voice of Employee. The survey is to measure the level of the employees' satisfaction and commitment and is absolutely voluntary. Questions are related to communications, development opportunities, meritocracy, relations with managers and peers, participation in decision-making processes, career-life balance, diversity and the values followed by the Bank.

Filling out the questionnaires is the first stage of activities to improve employee satisfaction. The next stages include result analysis, result presentation to employees, group interviews to get more details and preparation of post-survey improvement action plans, as well as their implementation and presentation of their outcomes to employees.

Workplace diversity

All employees of the Bank are obliged to ensure that their conduct is in compliance with applicable laws, internal regulations and adopted standards. The Bank strives to create an environment in which its employees have optimum chances to realize their potential, to ensure them the possibility of full professional development and to take care of their diversity with due respect for their dignity regardless of sex, race, religion or beliefs and sexual orientation. Employees are obliged to treat their colleagues with respect. The above expectations of the Bank are included in the "Principles of Conduct of Employees of Bank Handlowy w Warszawie S.A."

In 2013, the Bank joined the international "Diversity Charter" initiative, which obligates companies to impose a ban on discrimination in the workplace and to initiate activities to create and promote diversity. It also confirms that a company is ready to get all employees and business and social partners involved in such activities.

The Bank supports grass-root employee initiatives, including CitiWomen, which aims at creating friendly conditions for women to enable them to pursue development opportunities and to fulfill their professional ambitions. This initiative also helps women overcome various obstacles and keep their life-career balance.

Dialogue and freedom of association

Two labor unions (the Independent Self-Governing Labor Union "Solidarność" – Mazovian Region, Intercompany Labor Union No. 871 at Bank Handlowy w Warszawie S.A and the Independent Self-Governing Labor Union of Employees of Bank Handlowy w Warszawie S.A.) are active at the Bank. Cooperation between the employer and union representatives is in the spirit of partnership and mutual goal, which is to ensure the highest standards in all employee relationships.

Principles of Conduct of Bank Handlowy w Warszawie S.A. Employees

The Principles of Conduct are an overall set of key internal regulations applicable at the Bank. All employees of the Bank are obliged to comply with applicable laws, internal regulations and standards applicable at the Bank. The Bank strives to create an environment in which its employees have optimum chances to realize their potential, to ensure them the possibility of full professional development and to take care of their diversity with due respect for their dignity regardless of sex, race, religion or beliefs and sexual orientation. The Principles include formal procedures to be initiated in the case of a violation. The Bank has an Ethics Line, where employees may discuss any issues to opt for the best course of action in a specific situation or report their justified suspicion or provide information on a potential breach of laws, ethical standards or internal regulations of the Bank.

Employment restructuring

In the course of the group lay-offs process commenced by the Bank in 2013 (more details on page 100 of this report), a goal of its Management Board is to provide the maximum possible support to any departing persons in search for an alternate jobs within the Bank, in the newly-created structures of the Smart Banking Ecosystem and at other Citi entities in Poland. One of the initiatives dedicated to employees subject to group lay-offs is an outplacement program, which effectively helps employees navigate in the labor market to find soon an alternate job in line with their qualifications. In addition, those employees have access to all open recruitment processes conducted by other Citi companies.

Employee volunteering

The Bank runs the largest in Poland employee volunteering program, coordinated by the Leopold Kronenberg Foundation at Citi Handlowy. Its purpose is to develop the social commitment of current and former employees of the Bank. In 2013, the involvement of 1400 volunteers allowed for completion of 166 projects. The most important initiative was the 7th edition of the Citi Global Community Day.

Under the Employee Volunteering Program, a new initiative was started in 2013: Citi – socially active, which allows participants to joint sports interests with help to the needy. As in previous years, both cyclical events, like Santa Actions and the Citi Global Community Day, and individual volunteering aroused enormous interest.

1.3 Environmental initiatives

Care for the natural environment is one of the key principles of conduct for the Bank. The Bank has committed itself to run its business in accordance with sustainable growth rules. In 2007, its Management Board passed a resolution to implement a comprehensive Environment Management Plan. In the years that followed, the Bank adopted a new Environmental Policy and implemented an Environmental Management System. In 2013, it introduced an Energy Policy and implemented an Energy Management System. Within the framework of the above Policies, the Bank has defined the following objectives: to ensure most effective energy management; to minimize the consumption of energy fuels; to support purchases of energy efficient products and services and to ensure an improved energy result; to increase the share of segregated and recycled waste; to reduce carbon dioxide emissions; to ensure most effective utilities management; and to minimize the consumption of natural resources.

Direct environmental impact

Within the framework of its Policies, the Bank has identified two main areas of environmental impact. One is a direct impact, resulting from operations of the Bank, e.g. consumption of water, energy and paper, generated waste and air pollutions. The other one is an indirect impact, resulting from services provided by the Bank. As part of the implemented systems (Environmental Management System and Energy Management System), the locations of the Bank are monitored on an ongoing basis to record their consumption of electricity, water, gas and heat and the volumes and types of waste and greenhouse gases they generate.

The results are highly affected by environmental campaigns conducted at the Bank: ENERGY campaign (under which card-operated light and air-conditioning switches were installed in conference rooms, a centralized system was installed to control systems in buildings, movement detectors were installed in kitchens and rest rooms, illumination of building facades is changed flexibly depending on the season of the year, a program to optimize control of ice water generators was developed and implemented, emergency exit casings were turned into dark mode, elevators were modernized and a new elevator was installed with a system that generates electricity while going up with a small load or during the down run, illumination intensity was verified in halls and corridors, temperature settings and precise air-conditioning programs were verified, running schedules of controllers of the vent systems and ice water pumps were modified), WATER campaign (all faucets in the office buildings of the Bank were equipped in aerators, a rain water recovery system was installed in one building), and PAPER campaign (Print Wise action – printers were switched over to double-sided printing mode).

The effectiveness of the Environmental Management System was proven by a certificate confirming that it meets the PN-EN ISO 14001 standard and of the Energy Management System by a positive certification recommendation confirming compliance with PN-EN ISO 50001 standard.

Employee education

The Bank carries out regular education and information campaigns for its employees to promote environment protection education. During those campaigns information is disseminated to encourage participants to segregate waste and to save energy and water (Week for the Earth and Hour for the Earth). The Bank also conducted training for employees to familiarize them with the Environmental Management System and the Energy Management System.

More Trees Thanks to You

Jointly with the Leopold Kronenberg Foundation at Citi Handlowy, the Bank coordinates the More Trees Thanks to You campaign, under which the Bank and the Leopold Kronenberg Foundation in cooperation with a partner organization, i.e. Environment Protection League, and the State Forest Administration plant new trees. The objective of the program is to promote eco habits and to encourage customers of the Bank to abandon paper statements to their accounts or credit cards. Under the program the Bank has committed itself to plant a tree in the name of each customer who has decided to switch to electronic statements. In 2008-2013, 620,000 trees were planted. In addition, over 220 eco workshops were organized for children and teenagers.

Indirect environmental impact

Pursuant to agreements signed with the Kreditanstalt für Wiederaufbau (KfW) bank and with the use of funds provided by the Council of Europe Bank within the framework of the so called "Climatic Window" (SME & Municipal Finance Facility Energy Efficiency Window), the Bank offers to its customers two credit programs to finance ventures that increase energy efficiency: a financing program for ventures that meet the qualification conditions applicable to investments that increase energy efficiency implemented by micro, small and medium-sized enterprises in Poland and a financing program for ventures that meet the qualification conditions applicable to investments that improve energy efficiency and utilization of energy from renewable sources in Poland implemented by local municipality authorities or entities that perform statutory tasks of municipalities.

So, the Bank grants loans to finance projects aimed at energy savings and/or a reduction of greenhouse gas emissions and after a project is complete and the desired ecological effect is achieved it pays a subvention equal to 10% of the principal of the granted loan.

1.4 Social commitment and community development

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

In 2013, in the area of financial education, the Foundation ran eight nation-wide programs that filled up a gap in the education system by shaping consumer awareness among both young people who are about to enter the market and adult persons. Participants learn how to become a responsible, an informed saver or effective investor.

As an organization that pays attention to both the future and the past, in 2013 the Foundation continued its activities to protect cultural heritage. The primary initiative here is the Prof. Aleksander Gieysztor Award, which is granted every year to support individuals and institutions that rendered great service to protect cultural heritage in Poland or in other countries.
In 2013, the Foundation, the National Bank of Poland and the European Association for Banking and Financial History jointly organized the "Foreign Financial Institutions & National Financial Systems" conference, with participation of over 200 guests, including representatives of central banks from Albania, Austria, the Czech Republic, France, Greece, Spain, Indonesia, Portugal, Russia, Rumania, Slovakia and Turkey and academics from the leading universities and scientific centers in the world, like Harvard University, Princeton University, University of Pennsylvania, etc.

Leopold Kronenberg Foundation programs:

- **From Penny to Pound** is the first program of financial education in Poland, targeted at primary school students. The program is carried out jointly with the Junior Achievement Young Enterprise Foundation Poland and, from 2013 on, also the PZU Foundation, which will take over the program in 2014. In 2013, nearly 15,000 students took part in the program.

- **My Finances** is the largest financial education program for young people in Poland. The program is co-financed by the National Bank of Poland and conducted at schools by the Junior Achievement Young Enterprise Foundation Poland. In 2013, nearly 130,000 students participated in the program.

- **Be Entrepreneurial** program was started in the beginning of 2013 in cooperation with the Junior Achievement Young Enterprise Foundation Poland. It was positively assessed by the Ministry of National Education. Its objective is to equip its participants (students of junior high schools and higher level schools) with knowledge of and to develop attitudes and skills in the area of broadly defined enterprise.
- **Financial Independence of Women** is a program for women experiencing or exposed to economic violence. The program is implemented in cooperation with the Women's Rights Centre and covered over 800 women in 2013.
- **Business Startup** is a nation-wide program for students and graduates who want to open a business. The program is implemented in cooperation with Academic Incubators of Entrepreneurship. In 2013, 350 students who are starting their businesses supported by Incubators and 100 independent undertakings took part in the program.
- **Savings Week** is an educational action in the media to promote savings and the skills of rational management of personal finances among Poles. The campaign is carried out together with the Think! Foundation. Under the program, the results of the sixth edition of the "Poles' attitudes towards saving" survey were published in 2013. The educational campaign on finance in the media reached more than 3.5 million Poles. And direct actions (financial education

debates and meetings) gathered 4870 participants. In 2013, as in the previous year, traditional educational materials were supplemented by the multimedia online game First Million. The competitions arranged as part of the game attracted 3500 persons.

- **Microentrepreneurship Award** is a competition for owners of microbusinesses to promote the philosophy of micro-entrepreneurship. The results of the 9th edition were announced in the NewConnect market of the Warsaw Stock Exchange on 20 June 2013. The winner was Digital Core Design, which has been a designer of advanced processors and integrated circuits since 1999. It developed and manufactures the fastest industrial processor in the world.
- **Bank Handlowy Award** for an outstanding scientific contribution to development of economics and finance – this competition is to promote the most valuable theoretical publications in the field of economics and finance. The winner of the last edition was Jakub Growiec, PhD, an assistant profession in the Decision Support and Analysis Unit of the Warsaw School of Economics (SGH) and an expert of the National Bank of Poland for the study "Aggregated function of production in growth and convergence economics".

- **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 14th edition was Anda Rottenberg, art curator.
- **Recovery of Polish Art** is a program implemented jointly with the Ministry of Culture and National Heritage. Its aim is to recover the cultural heritage lost by Poland during WWII.

- **Roots** is a program under which the Foundation promotes the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In 2013, the Foundation and the National Bank of Poland co-hosted an annual international conference organized by the European Association for Banking and Financial History (EABH). The Foundation also continued the production of digital copies of photographs and documents relating to the Bank the Kronenbergs.
- **Employee Volunteering Program of Citi Handlowy** aims to promote the social commitment of present and former employees of the Bank. For more information see page 130 of this report.

- **Grant Program** is a competition through which the Foundation supports the most valuable projects conceived by non-for-profit organizations in the area of education and local development. In 2013, 37 grants were allocated in the total amount of PLN 1,033,687.
- **Responsible Business League (Liga Odpowiedzialnego Biznesu)** is a program that promotes in the academic community the CSR concept as a business standard. The program is organized by the Responsible Business Forum in cooperation with the Leopold Kronenberg Foundation and public universities under the honorary patronage of the Ministry of Science and Higher Education. The 9th edition of the program (academic year 2012/2013) covered over 8000 participants.

2. Cultural patronage and sponsorship

In 2013, Citi Handlowy sponsored several national and international conferences. It supported the 5th European Economic Congress in Katowice (May 13-15) and the CEE IPO Summit in the Warsaw Stock Exchange (June 6-7). It was also a partner of the Lewiatan Awards Gala on May 25 in the National Philharmonics Concert Hall in Warsaw, with the President of the Republic of Poland Bronisław Komorowski as the honorary guest.

In 2013, Citi Handlowy also supported the 7th Forum of Regions organized as a side-event of the 23rd Economic Forum in Krynica (September 3-5) and the Modern Self-Government Forum in Warsaw (December 3). It was also a partner of the jubilee 25th Academia Europea Conference (September 16-19) in Wrocław.

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 2013, 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 of 31 December 2013, held a total of 14.1% of shares of the Bank, which was a decrease of 0.2 p.p. against 31 December 2012.

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

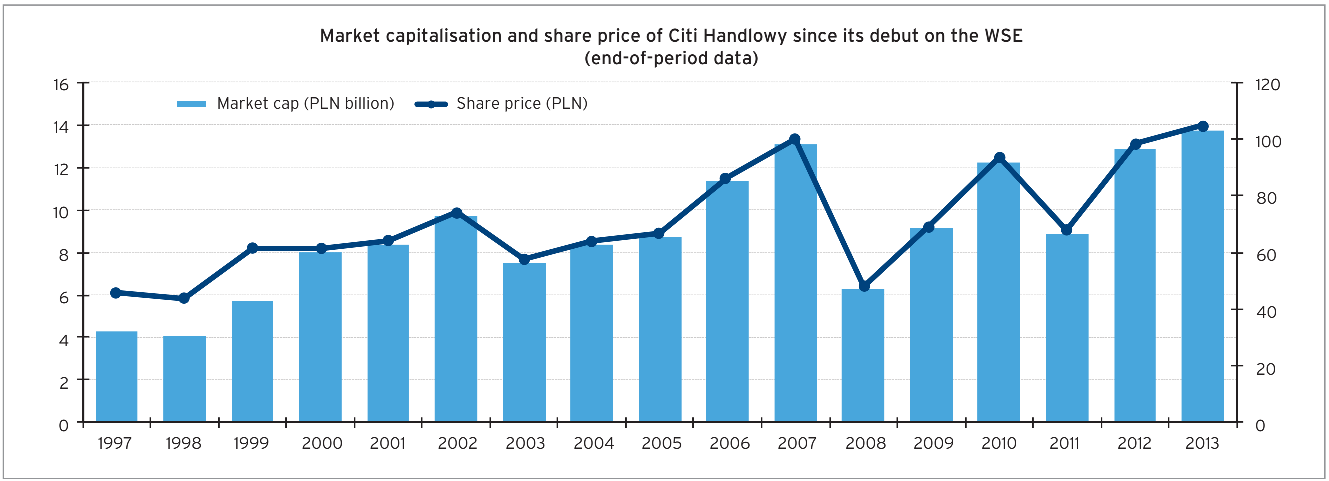
Shareholder	31.12.2013		31.12.2012	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
ING OFE	5,713,025	4.37%	6,464,317	4.95%
Aviva OFE Aviva BZ WBK	3,952,560	3.03%	3,285,343	2.51%
OFE PZU „Złota Jesień"	1,890,020	1.45%	2,048,920	1.57%
Amplico OFE	1,425,785	1.09%	1,509,294	1.16%
AXA OFE	1,084,681	0.83%	1,085,723	0.83%
Aegon OFE	774,840	0.59%	553,289	0.42%
Allianz Polska OFE	741,618	0.57%	705,884	0.54%
PKO BP Bankowy OFE	712,224	0.55%	600,468	0.46%
Generali OFE	671,397	0.51%	672,043	0.51%
Nordea OFE	496,843	0.38%	861,812	0.66%
OFE Pocztylion	371,263	0.28%	371,620	0.28%
Pekao OFE	338,011	0.26%	290,503	0.22%
OFE Warta	292,133	0.22%	292,413	0.22%
Total	18,464,400	14.13%	18,741,630	14.34%

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

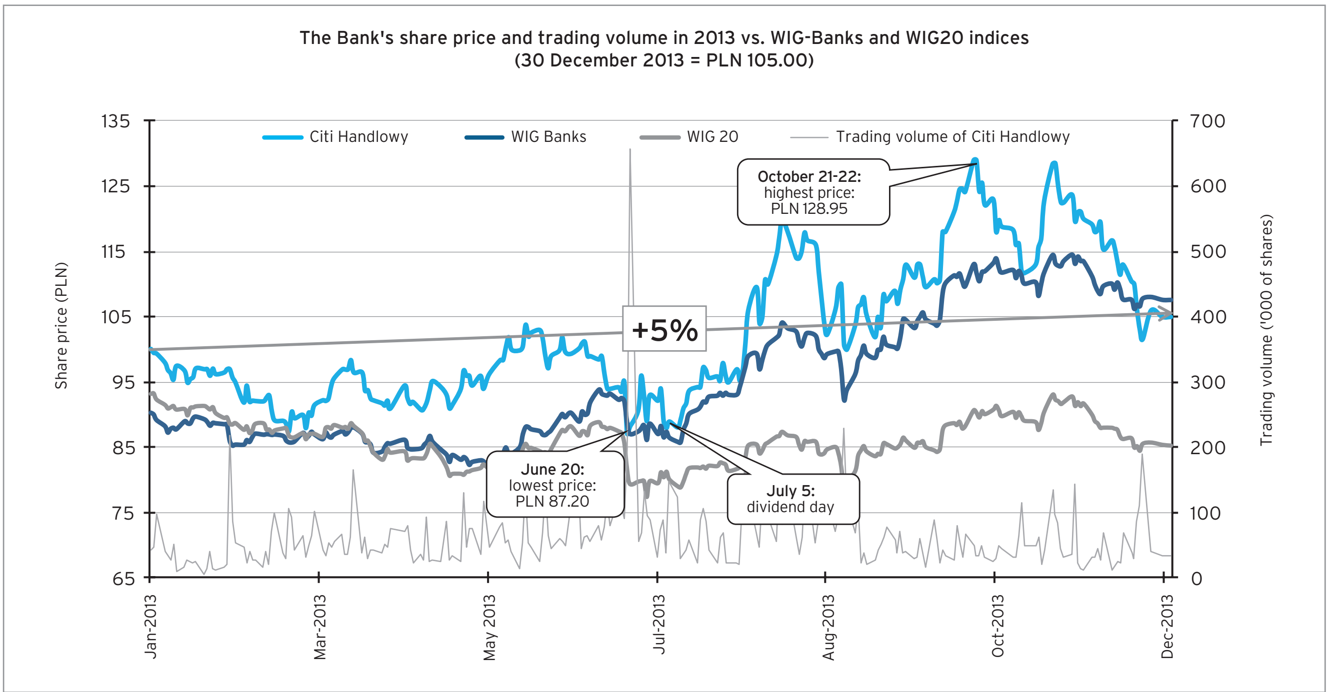
1.2 Performance of the Bank's shares on the WSE

In 2013, sixteen years passed since the Bank's first quotation on the Warsaw Stock Exchange. In 2013, the Bank was included in the following indices: WIG, WIG20, WIG30, WIG Banks and WIGdiv. In addition, the Bank was once again included in the RESPECT Index of socially responsible companies listed on the WSE Main Market.

During the last session in 2013 (30 December 2013), Citi Handlowy's price was PLN 105.0, i.e. above the level from 28 December 2012 (PLN 98.30) and 2 January 2013 (PLN 100.10) by 7% and 5%, respectively. The main WSE indices also went up in 2013, with WIG-20 as the only exception. The Bank' shares followed WIG and were a positive surprise compared to declining WIG-20. As compared to 2012 year end, WIG and WIG-Banks rose 8% and 21%, respectively, while WIG-20 declined by 7%.



The capitalization of the Bank at the end of 2013 stood at PLN 13.7 billion (compared to PLN 12.8 billion at the end 2012). The market price ratios were as follows: price to earnings (P/E) at 14.1 (13.2 in 2012); price to book value (P/BV) at 1.9 (vs. 1.7 in 2012).



After a relatively weak start of the year (when the Bank's shares were gradually falling until 20 February 2013), the Bank bounced back in the end of February to break PLN 100 in the beginning of May and finally reach PLN 103.80 on May 15. From that moment on, the trend reversed to a regular decline to 2013 low on June 20. Next, the Bank's shares returned on the path of growth to PLN 93.00 (at close on June 28).

In the second half of 2013, the price continued to rise, while setting consecutives highs in 2013, and reached the year's high on October 21-22 (PLN 128.95).

In 2013, the average price for the Bank's shares was PLN 102.28 and the average daily turnover of trade in the Bank's shares exceeded PLN 63,500.

2. Dividend

On 20 June 2013, the Bank's Ordinary General Meeting decided to allocate 75.0% of the stand-alone net profit of 2012 for a dividend, which implies a dividend per share at PLN 5.79.

On 4 March 2014, the Management Board of the Bank adopted a resolution on the proposed distribution of net profit for the year 2013 and recommended to allocate 99.9% of the stand-alone net profit of 2013 for a dividend, which implies a dividend per share at PLN 7.15.

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%
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%

** Dividend-payout 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 4 March 2014.*

3. Rating

The Bank has a full rating of the international rating agencies Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). Moreover, Standard & Poor's gives the Bank a rating which is not commissioned by the Bank, on the basis of publicly available information.

In 2013, the ratings remained unchanged. The last change of Moody's rating took place on 22 June 2012, while Fitch affirmed ratings at the unchanged level on 29 April 2013.

As of the end of 2013, the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits in the domestic currency	Baa3
Rating for long-term deposits in foreign currencies	Baa3
Rating for short-term deposits in the domestic currency	Prime-3
Rating for short-term deposits in foreign currencies	Prime-3
Financial strength	D+
Financial strength rating outlook	Stable
Long- term and short-term deposits in the domestic and foreign currency rating outlook	Stable

As of the end of 2013, the Bank had the following ratings awarded by Fitch:

Long-term IDR	A-
Outlook	Stable
Short-term IDR	F2
*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.*

The rating from Standard & Poor's (prepared on the basis of publicly available information) remained unchanged at BBBpi in 2013 (affirmed on 15 November 2013).

4. Investor relations

An integral element of the Bank's information policy, intended to cater to information needs of all persons and institutions interested in corporate information about the Company, are investor relations which provide information to the existing and potential investors as well as capital market analysts and rating agencies. 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 makes it possible to contact the Investor Relations Team, which has a broad knowledge of the Bank and the Capital Group;
- enabling the media to be present at the General Meetings of the Bank.

As part of investor relations activities in 2013, five conferences were held for analysts and investors to present financial results and significant events and business achievements of the Bank. In December 2013, representatives of the Bank's Management Board and the Investor Relations Unit meet with analysts and investors in the just opened Smart outlet in Warsaw to present the concept of the Smart Banking Ecosystem.

In addition, members of the Bank's Management Board and representatives of the Investor Relations Unit participated in regular meetings with investors and analysts (at the Bank's office and investor conferences).

In 2013, Citi Handlowy was again a partner of the nation-wide educational program "Civic Shareholding. Know How to Invest" organized by the Ministry of the State Treasury for individual investors. The Bank supported educational initiatives under the program, for example it prepared two extras on investing that were published by the opinion-forming Polityka weekly magazine.

X. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2013

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

It is the priority of Bank Handlowy w Warszawie ("Bank", "Company") 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 corporate governance rules approved by the Warsaw Stock Exchange ("WSE") as the Best Practices in Public Companies 2005 and, as of 1 January 2008 ("Best Practices"), available on www.corp-gov.gpw.pl, being the official website of the Warsaw Stock Exchange 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, led to the adoption by the Bank of the best practices as set forth in the Best Practices for WSE Listed Companies. The Bank continuously takes measures aimed at improving transparency in its organization, the division of powers and the functioning of its governing bodies and their mutual relations.

These include the following:

- The Bank has published its financial statements 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;
- Remuneration of all members of the Company's governing bodies is commensurate with the company size and reflects the scope of duties and 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 2013

In 2013, the Bank did not comply with the following rules and recommendations:

a. rule II.3 (applicable to the Management Board) and rule III.9 (applicable to the Supervisory Board) in respect of the Supervisory Board's approval of material transactions / agreements with related parties entered into as part of ongoing operations, in particular those related to liquidity management;

b. rule IV.10 (2) concerning bilateral communication in real time, under which shareholders may take the floor during the General Meeting from a location other than the venue of the General Meeting.

c. rule I 12 ensuring the shareholders the ability to perform either in person or by proxy their voting rights during the General Meeting from a location other than the venue of the General Meeting with the use of electronic communication means.

Ad. (a) The Bank did not apply rules II.3 and III.9 of the Best Practices only with respect to agreements with related parties entered into as part of ongoing operations, in particular those related to liquidity management. Considering the nature and the number of transactions entered into as part of ongoing operations, it is not possible from the operational perspective to obtain the Supervisory Board's approval for their conclusion. Other agreements with related parties fulfilled the criteria of the material agreement in the meaning of the Bank's Statute.

Ad. (b) The Management Board of the Bank also decided that during the Ordinary General Meeting held in 2013 it would not apply rule IV.10 of the Best Practices concerning bilateral communication in real time, under which shareholders may take the floor during the General Meeting from a location other than the venue of the General Meeting. The said decision was taken on account of the risks of legal as well as organizational and technical nature related to providing shareholders not participating personally in the General Meeting with real-time bilateral communication with the use of electronic communication means, which may negatively impact the course of the General Meeting.

Ad. (c) The Bank believes that voting by means of remote communication at general meetings of shareholders (recommendation I.12 of the Best Practices) may raise some concerns and generates greater risk of irregularities in the course of GM.

The current technology does not guarantee the full safety of remote voting, which may result in the decisions of the general shareholders meeting being declared null and void. The Bank considered potential technical problems which may occur during such a meeting, including problems with identification of shareholders participating online, selecting proper means of communication, risk of not meeting technical requirements by a shareholder, unpredicted transmission delays for shareholders from different time zones, communication problems beyond the Bank's control, including Internet connection problems in shareholder's region.

3. 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 employees' performance of duties 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. Within identification, prevention, control, monitoring and reporting of operational risk exposure, Bank implemented efficient mechanisms ensuring the 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 Vice President of the Bank's Management Board, Head of the Management and Support Sector.

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.

4. 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.

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

The Management Board of the Bank is composed of five to nine members, including the President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company, as well as 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. 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) as of the date of the General Meeting which approves the Management Board's report on the activities of the Bank as well as the financial statements for the last full financial year of a Management Board member's term of office;
2) upon the death of a Management Board member;
3) as of the date of dismissal of a 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) drafts the Regulations of the Management Board and submits them to the Supervisory Board for approval;
4) drafts regulations regarding the management of special funds created from the net profit and submits them to the Supervisory Board for approval;
5) determines dividend payment dates within the deadlines specified by the General Meeting;
6) appoints proxies, general attorneys and general attorneys with the right of substitution;
7) decides on matters specified in the Regulations of the Management Board;
8) resolves issues raised by the President, a Vice-President or a member of the Management Board;
9) takes independent decisions regarding acquisition and disposal of real properties, perpetual usufruct or interest in property;
10) adopts the Company's draft annual financial plan, accepts investment plans and reports on their implementation;
11) accepts reports on the activities of the Company as well as financial statements;
12) draws up motions regarding profit distribution or loss coverage methods;
13) approves the HR and credit policy as well as legal rules governing the Company's operation;
14) approves the principles governing the Company's capital management;
15) approves the employment structure;
16) determines the fundamental organizational structure of the Company, appoints and dismisses Sector Heads, appoints and dismisses Division Heads and determines the scope of their competence;
17) develops the plan of control measures undertaken in the Company and accepts reports on audits conducted;
18) resolves other issues subject to submission to the Supervisory Board or the General Meeting pursuant to the Articles of Association;
19) 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;
20) determines the organizational structure and the scope of responsibilities of the Audit Department, including mechanisms ensuring audit independence.

The Management Board is in charge of designing, implementing and ensuring proper functioning of the Company's management system. It 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. Members of the Management Board and heads of the organizational units specified in the Regulations of the Management Board are authorized to file motions to be considered by the Management Board with respect to matters within the competence of the aforementioned units.

The President of the Management Board:

1) manages the activities of the Management Board, including designation from among the Management Board members of a person performing the role of Deputy President in his/her absence, and determines the method of deputizing other Management Board members in their absence;
2) convenes and chairs meetings of the Management Board;
3) presents the position of the Management Board to the Company's governing bodies, state and local authorities as well as the general public;
4) files motions to the Supervisory Board regarding the appointment or dismissal of members of the Management Board as well as determination of their remuneration;
5) issues internal regulations governing the Company's operations and has the right to authorize the remaining members of the Management Board or other employees of the Company to issue such regulations;
6) decides on the use of internal audit results and notifies the audited unit of any decisions made with respect to the audit;
7) exercises other rights under the regulations adopted by the Supervisory Board.

The President of the Management Board has the right to assign to individual members of the Management Board as well as Division Heads particular responsibilities as specified above, except for those referred to in points (1) and (4).

6. 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 34.2 of the Banking Act of 29 August 1997, any amendments to the Bank's Articles of Association require approval of the Polish Financial Supervision Authority if they pertain to:

1) the Bank's 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 governing the internal control system;
5) equity and financial management principles;
6) share privilege or restrictions with respect to the voting right.

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

7.1 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 a 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) and other information with respect to a General Meeting is placed on the Bank's website as of the day of convening such a 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.

7.2 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 fulfillment 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.

7.3 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 a 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 the absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association 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, in order to ensure equitable treatment of all shareholders, the Bank adheres, among others, to the following practices:

- The General Meetings of the Bank always take place in the Bank's registered office in Warsaw;
- Presence of representatives of the media at the General Meetings is allowed;
- 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;
- The General Meeting has stable Regulations setting forth detailed principles for conducting meetings and adoption of resolutions;
- Members of the Supervisory Board and the Management Board take part in the General Meeting in order to provide its participants with explanations and information about the Bank within the scope of their responsibilities;
- The General Meeting participants objecting to a resolution are offered an opportunity for brief presentation of the rationale of their objection. Moreover, each General Meeting participant can submit written statements to the meeting minutes.

8. 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

8.1 Management Board

The Management Board of the Bank is composed of five to nine members, including the President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company as well as 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 a term of three years.

As of 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*	Mr. Sławomir S. Sikora is a graduate of the Warsaw School of Economics. In 1990-1994, he served in the Polish Ministry of Finance as the Head of the Banking System and Financial Institutions Department. In 1994-2001, he worked for Powszechny Bank Kredytowy S.A. (PBK) as Vice-President of the Management Board of PBK responsible for Corporate and Investment Banking. In 2001-2003, he was the President of the Management Board of AmerBank. Sławomir S. Sikora was appointed President of the Management Board of Bank Handlowy w Warszawie S.A. on 2 July 2003. He is the Head of Corporate Bank. Since March 2005, he has been holding the office of Chief Executive Officer and Citigroup Country Officer, and has been responsible for overall operations of Citigroup in Poland. He is also a member of the Supervisory Board of the Polish Bank Association and the Management Board of the Confederation of Employers Leviathan.
Brendan Carney *Vice-President of the Management Board*	Brendan Carney was born in the USA. He is a graduate of Economics at the University of Michigan and Wharton School at the University of Pennsylvania. Brendan Carney joined Citi Belgium in March 2010, where he was Head of Consumer Banking. In February 2011, he also took the position of Chief Country Officer for Belgium. In his new role, he was responsible for all Citi operations in Belgium, including Consumer and Institutional Banking. He began his career in Citi in 2002, in Portugal, when he was managing the consumer banking area. Brendan Carney serves as Vice-President of the Management Board of Bank Handlowy w Warszawie SA as of 21 May 2012. He is the Head of the Consumer Bank.

Barbara Sobala *Vice-President of the Management Board*	Ms. Barbara Sobala has a university degree. She graduated from the Cracow University of Economics. She has extensive (over twenty years) experience in banking, especially in risk management and corporate restructuring. She joined Bank Handlowy in 2005 as Head of IRM. Since 2012 she has been the Head of Risk for the Institutional and Corporate Bank. She is the Chairperson of the Risk and Capital Management Committee, Vice Chairperson of the Equity Investments Committee and a member of the Assets and Liabilities Management Committee (ALCO) in the Bank. Before joining Bank Handlowy's team, she served 13 years for Bank BPH where she held various roles including Head of the Restructuring Department Head. She was also a member of the Bank's Credit Committee. Ms. Barbara Sobala serves as Vice-President of the Management Board of the Bank as of 15 October 2013. She is the Head of the Risk Management Sector of the Bank.
Misbah Ur-Rahman-Shah *Vice-President of the Management Board*	Mr. Misbah Ur-Rahman-Shah holds a degree in Commerce from Government College of Commerce and Economics Karachi. He has been with the Polish banking business since 1992, when he became Head of Treasury of Citibank (Poland) S.A. In 1996-1998, he was the Head of Strategy & Management Processes for CEECA. His main responsibilities included strategy implementation in the Corporate Bank. In 1998-2002, as Member of the Management Board of Saudi American Bank (SAMBA), U.K., he was responsible for the treasury business. In 2002-2004, he managed the Sales & Trading Business in Central and Eastern Europe, Russia and CIS. On 12 September 2008, he was appointed Member of the Supervisory Board of Dom Maklerski Banku Handlowego w Warszawie S.A. and then, in 2011, the Chairman of the Supervisory Board. Since 2004, he has been the Head of the Treasury Division of Bank Handlowy w Warszawie S.A. and currently also the Head of Market Business for Central and Eastern Europe. Misbah Ur-Rahman-Shah was appointed Vice-President of the Management Board of the Bank on 15 March 2011. On 17 December 2013 the Bank received information that due to personal reasons Mr. Misbah Ur-Rahman-Shah, will not seek re-election for another term. Mr. Misbah Ur-Rahman-Shah's current 3-year term as Vice-President of the Management Board expires on 15 March 2014.
Witold Zieliński *Vice-President of the Management Board*	Mr. Witold Zieliński holds a master's degree and completed post-graduate studies in International Law at the University of Warsaw. He started his career in 1980 in Bank Handlowy w Warszawie S.A. in the Southern European Department in the Foreign Loans Division. In 1986-1990, he worked for the Polish Commercial Office in New York. In 1991, Witold Zieliński joined Citibank (Poland) S.A. In 1992-1995, he was a Member of the Management Board, then he worked for Citibank N.A. London Branch, where he was responsible for the sales of global products and customer risk assessment in Southern and Eastern European markets. In 1998, he set up a representative office of Citibank NA in Kiev and then established a fully licensed Citibank Ukraine, which he ran as President of the Management Board until the end of 2003. In 2004-2005, he was the President of the Management Board of Citibank Romania. Witold Zieliński was appointed Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 1 January 2006. He is also the Chief Financial Officer and Head of the Management and Support Sector.
Iwona Dudzińska *Member of the Management Board*	Ms. Iwona Dudzińska holds an MA in Economics and is a senior executive with 15 years' experience in management of strategic projects and complex operation and technology processes. She has been with Citigroup since 1999, first as Senior Branch Operations Officer Citibank (Poland) S.A. responsible for management of documentary operations, local and foreign clearing, money market operations and the bank's administrative functions. She was also in charge of the Corporate Clients Department. In 2001-2004, she managed the Centralized Operations Division of the Corporate and Investment Bank. From April 2004 to July 2008, as the Managing Director, she was the Head of Operations and Technology of the Corporate and Investment Bank. As the Head of Operations and Technology Sub-Sector, she was responsible for all operation and technology activities in the Bank since July 2008. Iwona Dudzińska was appointed Member of the Management Board of Bank Handlowy w Warszawie S.A. on 18 September 2009 for a three-year term of office. She is also the Head of Operations and Technology Sub-Sector.

In 2013, the Management Board also included Mr. Robert Daniel Massey Jr., Vice-President of the Management Board, whose mandate expired on 20 June 2013.

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.

The President of the Management Board convenes and chairs meetings of the Management Board and may also determine fixed meeting dates.

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. Absence must be excused. In addition to members of the Management Board, meetings may be attended by:

1) Division Heads;
2) Corporate Services Office Head or a designated person;
3) Compliance Head;
4) Legal Division Head.

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 by the Management Board are adopted 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 procedure pursuant to a decision of the President of the Management Board or the Deputy President. 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.

Minutes are taken from Management Board meetings, which is a responsibility of the Corporate Services Office. Minutes of 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.

8.2 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 of 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. He is the author of numerous publications on international trade and foreign policy. Dr. Olechowski is a Professor at the Vistula University. In the years 1991-1996 and 1998-2000 Andrzej Olechowski served as Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003. He serves as Chairman of the Supervisory Board since 23 July 2012.
Shirish Apte *Vice-Chairman of the Supervisory Board*	Mr. Shirish Apte is Chairman, Banking for Citi Asia Pacific. He is a member of Citi Business Development Committee and the Senior Advisory Group. Mr. Apte took on his current role in January 2012 after serving as CEO for Citi Asia Pacific. Previously, Mr. Apte was CEO of Citi's Central & Eastern Europe Region and, prior to that he was CEO for Central & Eastern Europe, Middle East and Africa (CEEMEA), Citi Markets and Banking. Mr. Apte has more than 30 years' experience with Citi, starting as Relationship Manager with Citibank India. He held various assignments in Corporate Banking, Risk Management and Corporate Finance Investment Banking before becoming Markets & Banking Head in India. Mr. Apte moved to London in 1993 as senior Risk Manager for the group before becoming Corporate Finance Head for CEEMEA, including India. In 1997, he moved to Poland as Country Manager for Citibank Poland and Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. Shirish Apte played a key role in the acquisition of Bank Handlowy by Citigroup in 2000. Shirish Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and has an MBA from London Business School. He is Citi's Senior Statesman at the London Business School. Shirish Apte has been the Vice-Chairman of the Supervisory Board of Bank Handlowy w Warszawie SA. since 25 June 2003.
Adnan Omar Ahmed *Member of the Supervisory Board*	Mr. Adnan Omar Ahmed is a Managing Director, Head of Human Resources for Europe, Middle East and Africa (EMEA), and Global Head of Citi Shared Services in Citi Employee Services. Adnan Omar Ahmed joined Citi in July 2010 and is based in London. Prior to joining Citi, he spent a seventeen year career at Morgan Stanley. After the first two years in New York, Adnan spent the rest of his career in Asia, holding various senior positions including Head of Human Resources / Chief Talent Officer, and Chief Administrative Officer. In the latter role, he had responsibility for the development and execution of cross-divisional strategy and direct accountability for regional infrastructure and support functions, including Finance, Human Resources, Information Technology, Operations, Shared Services, Marketing and Communications, Corporate Services, and Operational Risk. His experiences include Start-Ups, Joint Ventures (China and India) and advising clients, including Corporates and Sovereign Wealth Funds, on their infrastructure, platform, and growth strategies. Before joining Morgan Stanley, Adnan Omar Ahmed worked at Mitsubishi UFJ Financial group in New York in Corporate Finance, Operations, Credit and Human Resources. Adnan has taught international management courses and lectured at educational institutions including INSEAD and the Hong Kong University. He has also been active in various non-profit organizations, including as a Board Member of the American Chamber of Commerce in Hong Kong, where he co-led a key initiative on Board Governance, and the English Schools Foundation (Hong Kong). He currently serves as a Board member of Temasek Management Services, a wholly owned subsidiary of Temasek Holdings. Adnan received his MBA degree from the A.B. Freeman School of Business at Tulane University (1990), and holds degrees in BSc Computer Science (Magna Cum Laude, 1988) and BA International Relations (Cum Laude, 1988), also from Tulane. He has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 21 June 2012.

Igor Chalupec *Member of the Supervisory Board*	Mr. Igor Chalupec is Executive 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 of the Faculty of Foreign Trade at the Warsaw School of Economics (formerly the Main School of Planning and Statistics) and the Faculty of Law and Administration at 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 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 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 Mazeikui 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 Group. In the years 1997-2013 he has been the President of ABB Sp. z o.o. and Country Manager of ABB Group in Poland. Since September 2013 he is Director of Subregion "Baltic Countries, Russia, Central Asia Countries and Caucasus of ABB Group. Mirosław Gryszka has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 30 June 2000.
Marc Luet *Członek Rady Nadzorczej*	Mr. Marc Luet is the Chief Executive Officer of Consumer for Europe, Middle East and Africa (EMEA). He assumed this role in June 2010, and he is responsible for expanding the bank's leading presence in EMEA's developing markets. He oversees Citi's retail banking, wealth management and credit cards businesses and the strategy to offer high value products, superior service and cutting edge mobile and internet banking solutions to urban customers across the region. In 2008-2010, Marc Luet was VISA President for CEMEA, where he was responsible for Strategy, Marketing, Sales, Finance, Legal, Corporate Communications, and Regulatory Affairs for the region. He was also a member of the Operating Committee of Visa Inc. Before joining Visa, Marc Luet was CEO of Consumer Finance & Retail International at Fortis Group (2005-2008), CEO at Egg France (2002-2005) and Consumer Business Manager for Hungary and Belgium at Citigroup (1990-2002). Marc Luet is a graduate of the Institut d'Etudes Politiques de Paris, holds BSc in Economics from the Panthéon Sorbonne University and MBA from the Tuck School of Business Administration at Dartmouth College. Marc Luet has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 1 June 2011.
Frank Mannion *Member of the Supervisory Board*	Mr. Frank Mannion is the Citi Chief Financial Officer for Europe, the Middle East and Africa (EMEA), with responsibility for over 1,000 staff across the Region. He assumed this position in January 2011. 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. He served as CMB EMEA Regional Controller, responsible for Product Control, Controllers and Regulatory Reporting and subsequently in March 2008 he was appointed the Citi Regional Franchise Controller for EMEA with responsibility for over 800 people covering all the businesses. Mr. Frank Mannion has a Commerce Degree from the National University of Ireland - Galway and is a Chartered Accountant. He lives in London with his family. Frank Mannion 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*	Chief Executive Officer and President of the Management Board of Kulczyk Investments S.A. and Kulczyk Holding S.A., an international investment group, focused on the creation of deals and investment opportunities in global emerging markets, particularly in the areas of energy, mineral resources and infrastructure. He has extensive transactional and regulatory experience, particularly in the areas of privatizations, mergers and acquisitions and project finance in power, infrastructure, oil and gas sectors. Prior to becoming the CEO of Kulczyk Investments in 2007, Mr. Mioduski was the Executive Partner at CMS Cameron McKenna responsible for energy and infrastructure practice in Poland. He spent four years in the New York and Warsaw offices of White & Case LLP and before that was with Vinson & Elkins LLP in Houston He is a member of the Board of the Central Europe Energy Partners Association, the Vice President of the Harvard Club of Poland and the Vice President of the Polish Business Roundtable. He is also a member of the Polish Chapter of the Young Presidents' Organization. Mr. Mioduski is also a member of the Board of Directors of several public and non-public companies including Kulczyk Oil Ventures Inc., Autostrada Wielkopolska S.A., Aurelian Oil & Gas Corp. and KI Energy S.a r.l. Dariusz Mioduski holds Juris Doctor degree (1990) from Harvard Law School and Bachelor of Arts degree (1987) from the University of St. Thomas in Houston. Dariusz Mioduski has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 12 September 2011.
Anna Rulkiewicz *Member of the Supervisory Board*	Ms. Anna Rulkiewicz is a graduate of the Faculty of Humanities at the Nicolaus Copernicus University in Toruń. At the same time she graduated from the Faculty of Psychology at the University of Hamburg. Ms. Anna Rulkiewicz also completed postgraduate studies at the Polish-French Insurance Institute (operating within the French Institute), and a series of training courses in the field of management, sales, communication, marketing (including 3-year managerial studies), organized under the LIMRA certified insurance program "Marketing Strategies for Executive Advancement" (LIMRA Executive Development Group). She also completed several other management, sales, finance, marketing and banking courses. Ms. Anna Rulkiewicz works in LUX MED Sp. z o.o. Initially, she was a Member of the Management Board and Sales and Marketing Director. Since 2007 she has been the President of the Management Board of LUX MED Group. Since the end of 2011, she has also been the Managing Director of LMG Försäkrings AB, which operates in Poland under the brand - LUX MED Insurance. She is also the President of the Association of Private Employers of Medicine. Her professional experience also includes a period with Credit Suisse Life & Pensions Towarzystwo Ubezpieczeń na Życie (2001-2002), where she was responsible for the management of the Sales and Marketing Department. At Powszechne Towarzystwo Emerytalne / Winterthur she supervised the Internal Sales, External Sales, Group Life Insurance, and Marketing and Communications Departments. Between 1998 and 2001 she worked for Zurich Towarzystwo Ubezpieczeń na Życie S.A. and Zurich Powszechne Towarzystwo Emerytalne S.A. as Group Insurance and Training Director responsible for, among others, the group insurance segment, including the development of services, the recruitment system and the management of trainings. After her appointment as Corporate Customer Unit Director and Member of the Management Board of Zurich Towarzystwo Ubezpieczeń na Życie S.A., Ms. Rulkiewicz was responsible for small business and corporate segments. Between 1995 and 1998 she worked in Commercial Union Towarzystwo Ubezpieczeń na Życie S.A., where her most recent responsibilities included development of individual and group insurance sales in the area of bancassurance. She is a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 June 2013.
Stanisław Sołtysiński *Member of the Supervisory Board*	Mr. Stanisław Sołtysiński, Professor of Law. Stanisław Sołtysiński is engaged in scientific activities as a law professor at the Adam Mickiewicz University in Poznań (where he also held the position of Dean of the Faculty of Law and Administration) and a recurring visiting professor at the University of Pennsylvania Law School in Philadelphia, the College of Europe in Bruges, the Max Planck Institute in Munich and the International Law Academy 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. Professor Sołtysiński is also in private law practice as a partner in the law firm Sołtysiński, Kawecki i Szlęzak - Legal Advisors. Professor 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 the performance of all of Citi's businesses in Russia, the Czech Republic, Hungary, Romania, Slovakia, Bulgaria, Kazakhstan and Ukraine. He is based in Moscow. Citi provides a broad range of services including consumer, securities and markets and corporate and investment banking across the CEE region, one of Citi's top priority markets globally. Prior to his current role, between 2005 and 2008, Zdenek Turek was Citi Country Officer for Citibank South Africa and Division head for Africa, a region with 16 countries of Citi's presence. 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). Zdenek Turek joined Citi in 1991 in Prague where he held a number of Corporate Bank and Corporate Finance management roles before moving to Citi Romania in 1998 as Head of Citi 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 and Business sectors (1986-1990). He then joined A.I.C., an Austrian Management Consulting firm as Deputy Head of Representative Office, Prague responsible for corporate advisory focusing on restructuring and financial recovery of industrial companies. Zdenek Turek was born in Kolin, Czech Republic. He graduated with an MA in Finance and Banking from the University of Economics, Prague in 1986, an Advanced Management Development Program from Wharton University in 1997 and an MBA from INSEAD in 2010. Zdenek Turek is a member of the American Chamber of Commerce Board in Russia. He is 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. Before joining Citigroup in September 2004, 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 client key matters. 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. Stephen R. Volk has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.

In 2013, the Supervisory Board also included Professor Krzysztof Opolski who resigned as of 28 June 2013.

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;

   as adopted by the Management Board of the Company;
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 of the entity authorized to audit financial statements to audit or review the financial statements;
8) granting consent to employment and dismissal of the Head of the Audit Department upon the motion of the Management Board and supervision over operations of the Audit Department;
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.

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 adopted 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 previous 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 acting as the Chairman, Stanisław Sołtysiński acting as the Vice-Chairman, and Igor Chalupec, Mirosław Gryszka, Marc Luet, Andrzej Olechowski, Anna Rulkiewicz, Zdenek Turek and Stephen R. Volk acting as Committee members.

Audit Committee

The Audit Committee is composed of:

1) Mirosław Gryszka – Chairman of the Committee,
2) Frank Mannion – Vice-Chairman of the Committee,
3) Shirish Apte - Member of the Committee,
4) Igor Chalupec - Member of the Committee,
5) Marc Luet – Member of the Committee,

Krzysztof Opolski was a member of the Committee until 28 June 2013.

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 Vice-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 Vice-Chairman of the Committee, the Chairman may decide on considering a matter by circular procedure.

Remuneration Committee

The Remuneration Committee is composed of:

1) Andrzej Olechowski – Chairman of the Committee,
2) Adnan Omar Ahmed – Vice-Chairman of the Committee,
3) Shirish Apte – Member of the Committee,
4) Stanisław Sołtysiński -- Member of the Committee.

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 – Vice-Chairman of the Committee,

3) Frank Mannion – Member of the Committee,

4) Andrzej Olechowski – Member of the Committee,

5) Stephen R. Volk – Member of the Committee,

6) Dariusz Mioduski – 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 Vice-Chairman of the Committee.

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

Minutes are taken from the Committee's meetings.

9. 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. (HL) are not public companies and therefore are not obliged to comply with the "Best Practices of WSE Listed Companies" and submit declarations in this respect; however, considering the significant role played by these entities in the capital group, the following circumstances should be mentioned:

DMBH is a member of the Chamber of Brokerage Houses; as a member of the Chamber it is obliged to comply with the Code of Good Practice of Brokerage Houses, developed by the Chamber of Brokerage Houses. This Code does not regulate the corporate governance issue but concerns mainly the rules for protection of trade secret, relationships with customers and conduct of the brokerage house's employees, including the conduct in relations with other brokerage houses. DMBH is an entity regulated by the Act on Trading in Financial Instruments and therefore it adheres not only to the provisions of the Code of Commercial Companies but also to certain components of the corporate governance, arising from the provisions of this Act and executive regulations – e.g. pursuant to article 103 of the above mentioned Act the Management Board should be composed of at least 2 persons with higher education, at least 3 years of experience in financial institutions and good reputation regarding the performed functions. DMBH should notify the Polish Financial Supervision Authority of any changes to the composition of the Management Board. Additionally, DMBH has reporting obligations towards The Polish Financial Supervision Authority (including reports on changes to the composition of the Management Board and on the content of certain resolutions adopted by the General Meeting). The Act on Trading in Financial Instruments also regulates the issues concerning the acquisition of shares of a brokerage house. It provides that the head office of a brokerage house should be in the territory of Poland.

Handlowy-Leasing Spółka z o.o. (HL) is a company operating in the leasing industry. Leasing companies organized in the Polish Leasing Association has not developed Good Practices for Leasing Companies yet.

HL operates under the Code of Commercial Companies. Despite the absence of such a requirement in the Code, a supervisory body – in the form of the Supervisory Board – has been established in HL, to exercise continuing supervision over the operations of the company.

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

1. Salaries and awards (in cash and in kind), including bonuses from profit, paid to persons managing and supervising the Bank

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Management Board in 2013:

PLN'000	Salaries, awards and short-term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	2,414	292	2,187
Brendan Carney	1,664	256	186
Barbara Sobala (1)	169	15	-
Misbah Ur-Rahman-Shah	3,102	354	1,961
Witold Zieliński	1,090	113	594
Iwona Dudzińska	416	110	437
Former members of the Management Board:			
Robert Daniel Massey JR (2)	1,043	84	388
Sonia Wędrychowicz-Horbatowska (3)	-	-	171
	9,898	1,224	5,924

(1) in employment since 15 October 2013
(2) in employment until 19 June 2013
(3) in employment until 13 May 2012

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Management Board in 2012:

PLN'000	Salaries, awards and short-term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	3,025	233	577
Brendan Carney (1)	824	210	-
Robert Daniel Massey JR	2,361	367	39
Misbah Ur-Rahman-Shah	5,385	481	302
Witold Zieliński	1,405	104	120
Iwona Dudzińska	1,477	112	129
Former members of the Management Board:			
Sonia Wędrychowicz-Horbatowska (2)	975	2,077	197
Michał H. Mrożek (3)	-	120	55
Peter Rossiter (4)	-	-	32
Edward Wess (5)	-	-	6
Reza Ghaffari (6)	-	-	5
	15,452	3,704	1,462

(1) in employment since 21 May 2012
(2) in employment until 13 May 2012
(3) in employment until 28 February 2011
(4) in employment until 31 October 2009
(5) in employment until 30 November 2008
(6) in employment until 31 May 2006

"Base salaries and awards" include gross base salary well as awards paid 2013 and 2012.

"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, dividends and any supplementary benefits consistent with the employment contracts of foreign employees.

"Capital assets granted" include Citigroup shares granted in the previous years and distributed in 2013 and 2012 and paid management options, Additionally, in 2013 "Capital assets granted" include the value of paid awards short-term phantom shares of the Bank.

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Supervisory Board in respect of the years 2013 and 2012:

PLN'000	2013	2012
Andrzej Olechowski	228	229
Igor Chalupec	185	160
Mirosław Gryszka	168	160
Dariusz Mioduski	120	89
Stanisław Sołtysiński	168	200
Anna Rulkiewicz	30	-
Former members of the Supervisory Board:		
Krzysztof L. Opolski	70	120
	969	958

Remuneration paid and payable in respect of the years 2013 and 2012 to the persons managing subsidiaries of the Bank amounted to PLN 5,834 thousand and PLN 7,970 thousand respectively.

The persons supervising subsidiaries of the Bank did not receive any remuneration in either 2013 or 2012.

2. 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 of 31 December 2013 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	-	-	16,912	509
Brendan Carney	-	-	8,248	248
Barbara Sobala	-	-	206	-
Witold Zieliński	-	-	3,768	113
Iwona Dudzińska	600	2,400	1,581	48
Supervisory Board				
Andrzej Olechowski	1,200	4,800	-	-
Shirish Apte	-	-	143,866	4,333
Adnan Omar Ahmed	-	-	6,576	198
Marc Luet	-	-	15,000	452
Frank Mannion	-	-	20,902	630
Zdenek Turek	-	-	24,457	737
Stephen R. Volk	-	-	169,339	5,100

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 of 31 December 2012 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	-	-	12,460	386
Brendan Carney	-	-	4,896	152
Robert Daniel Massey JR	-	-	1,719	53
Witold Zieliński	-	-	2,772	86
Iwona Dudzińska	600	2,400	9,611	298
Supervisory Board				
Andrzej Olechowski	1,200	4,800	-	-
Shirish Apte	-	-	73,590	2,281
Adnan Omar Ahmed	-	-	2,664	83
Marc Luet	-	-	28,513	884
Frank Mannion	-	-	16,400	508
Stanisław Sołtysiński	-	-	253,400	7,854
Stephen R. Volk	-	-	198,969	6,167

As of 31 December 2013 and 31 December 2012, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

3. 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.

4. Management policy

The management policy of the Bank did not change in 2013. The policy is described in a Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

XII. Agreements concluded with the registered audit company

On 19 March 2013 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 2013. 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 2012 was made by KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. having its registered office in Warsaw at 51, Chłodna St., registered audit company No. 3546. KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. was selected on 16 March 2012 in compliance with the applicable laws and auditing standards.

The auditor's net fees under the agreements (paid or payable) for the years 2013 and 2012 are presented in the table below:

For the year	2013 PLN'000	2012 PLN'000
Bank (the parent company) audit fees (1)	410	583
Bank (the parent company) review fees (2)	170	245
Subsidiary companies audit fees (3)	255	301
Other assurance fees (4)	165	193
	1,000	1,322

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 2013 signed on 17 May 2013).

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 2013 signed on 17 May 2013).

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. Brendan Carney, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Mr. Misbah Ur-Rahman-Shah, Vice-President of the Management Board; Mr. Witold Zieliński, Vice-President of the Management Board; and Ms. Iwona Dudzińska, 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 2013 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 2013 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 Group in 2013.

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 Consolidated Financial Statements of the Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2013 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 of 2014 item 133) is included in the Annual Consolidated Financial Statements of the Capital Group of the Bank.

Signatures of Management Board Members

Date	Name	Position/function
13.03.2014	**Sławomir S. Sikora**	President of the Management Board
13.03.2014	**Brendan Carney**	Vice-President of the Management Board
13.03.2014	**Barbara Sobala**	Vice-President of the Management Board
13.03.2014	**Misbah Ur-Rahman-Shah**	Vice-President of the Management Board
13.03.2014	**Witold Zieliński**	Vice-President of the Management Board Chief Financial Officer
13.03.2014	**Iwona Dudzińska**	Member of the Management Board