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Contents

Independent registered auditor's opinion

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 2014, showing total assets and total equity and liabilities of PLN 49,843,665 thousand, the consolidated income statement for the year from 1 January to 31 December 2014, showing a net profit of PLN 947,312 thousand, the consolidated statement of comprehensive income for the year from 1 January to 31 December 2014, showing total comprehensive income of PLN 1,038,094 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.

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

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

a. give a fair and clear view of the Group's financial position as at 31 December 2014 and of the results of its operations for the year from 1 January to 31 December 2014, in accordance with the International Financial Reporting Standards (IFRS) 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 2014 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 an other state, which is not a member state ("*the Decree*" – Journal of Laws of 2014, item 133) and is consistent with the information presented in the audited consolidated financial statements.

The 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 2015

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2014.

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

Contents:

I. General information about the Group

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

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

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

d. As at 31 December 2014 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 2014, the Parent Company's shareholders were:

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

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

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

I. General information about the Group (cont.)

g. As at 31 December 2014, the Bank Handlowy w Warszawie S.A. Group comprised the following entities:

Name	Nature of equity relationship (indirect and direct interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance sheet date
Bank Handlowy w Warszawie S.A.	Parent Company	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2014
Handlowy-Leasing Sp. z o.o.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2014
Dom Maklerski Banku Handlowego S.A.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2014
PPH Spomasz Sp. z o.o. in liquidation	Subsidiary (100.00%)	Full	Not audited	-	31 December 2014
Handlowy Investments S.A.	Subsidiary (100.00%)	Full	Auditor of the financial statements yet to be chosen by the Entity	n/a	28 February 2015*
Handlowy-Inwestycje Sp. z o.o.	Subsidiary (100.00%)	Equity	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2014

* In the 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.

I. General information about the Group (cont.)

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

• Sławomir S. Sikora	President of the Management Board
• Brendan Carney	Vice President of the Management Board
• Witold Zieliński	Vice President of the Management Board
• Barbara Sobala	Vice President of the Management Board
• Maciej Kropidłowski	Vice President of the Management Board from 19 March 2014
• Misbah Ur-Rahman-Shah	Vice President of the Management Board to 18 March 2014
• Iwona Dudzińska	Member of the Management Board
• Czesław Piasek	Member of the Management Board from 20 March 2014

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 International Financial Report Standards (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 2014 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 9/V/2014 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 6 May in the following periods:

- interim audit from 3 November 2014 to 31 December 2014;
- final audit from 2 January 2015 to 13 March 2015.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2014 (selected lines)

	31.12.2014 PLN '000	31.12.2013 PLN '000	Change PLN '000	Change (%)	Structure 31.12.2014 (%)	Structure 31.12.2013 (%)
ASSETS						
Cash and balances with Central Bank	1,522,949	778,464	744,485	95.6	3.1	1.7
Amounts due from banks	2,065,685	3,539,927	(1,474,242)	(41.6)	4.1	7.8
Financial assets held-for-trading	12,721,573	5,751,829	6,969,744	121.2	25.5	12.7
Debt securities available-for-sale	14,435,099	17,616,041	(3,180,942)	(18.1)	29.0	38.9
Equity investments valued at equity method	7,765	7,814	(49)	(0.6)	-	-
Other equity investments available-for-sale	8,211	15,280	(7,069)	(46.3)	-	-
Amounts due from customers	16,770,482	15,231,327	1,539,155	10.1	33.7	33.6
Tangible fixed assets	366,857	384,581	(17,724)	(4.6)	0.7	0.8
Intangible assets	1,387,745	1,417,363	(29,618)	(2.1)	2.8	3.1
Receivables due to current income tax	13,255	80,854	(67,599)	(83.6)	-	0.2
Asset due to deferred income tax	157,319	203,132	(45,813)	(22.6)	0.3	0.4
Other assets	384,612	359,039	25,573	7.1	0.8	0.8
Non-current assets held-for-sale	2,113	12,738	(10,625)	(83.4)	-	-
TOTAL ASSETS	**49,843,665**	**45,398,389**	**4,445,276**	**9.8**	**100.0**	**100.0**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2014 (selected lines) (cont.)

	31.12.2014	31.12.2013	Change		Structure 31.12.2014	Structure 31.12.2013
	PLN '000	PLN '000	PLN '000	(%)	(%)	(%)
LIABILITIES						
Amounts due to banks	5,122,576	6,378,436	(1,255,860)	(19.7)	10.3	14.0
Financial liabilities held-for-trading	6,770,922	4,196,896	2,574,026	61.3	13.5	9.2
Hedging derivatives	-	24,710	(24,710)	(100.0)	-	0.1
Amounts due to customers	29,632,598	26,568,765	3,063,833	11.5	59.4	58.6
Provisions	26,409	89,284	(62,875)	(70.4)	0.1	0.2
Liabilities due to current income tax	186	84	102	121.4	-	-
Other liabilities	880,214	832,950	47,264	5.7	1.8	1.8
TOTAL LIABILITIES	**42,432,905**	**38,091,125**	**4,341,780**	**11.4**	**85.1**	**83.9**
EQUITY	**7,410,760**	**7,307,264**	**103,496**	**1.4**	**14.9**	**16.1**
TOTAL LIABILITIES AND EQUITY	**49,843,665**	**45,398,389**	**4,445,276**	**9.8**	**100.0**	**100.0**

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

CONSOLIDATED INCOME STATEMENT
for the financial year from 1 January to 31 December 2014 (selected lines)

	2014	2013	Change		Structure	
	PLN '000	PLN '000	PLN '000	(%)	2014 (%)	2013 (%)
Interest and similar income	1,489,071	1,646,332	(157,261)	(9.6)	51.8	52.9
Interest expense and similar charges	(325,128)	(404,180)	79,052	(19.6)	19.1	21.4
Net interest income	**1,163,943**	**1,242,152**	**(78,209)**	**(6.3)**		
Fee and commission income	726,196	762,772	(36,576)	(4.8)	25.3	24.5
Fee and commission expense	(107,265)	(120,470)	13,205	(11.0)	6.3	6.4
Net fee and commission income	**618,931**	**642,302**	**(23,371)**	**(3.6)**		
Dividend income	5,783	4,416	1,367	31.0	0.2	0.2
Net income on trading financial instruments and revaluation	382,160	349,000	33,160	9.5	13.3	11.2
Net gain on debt investment securities	229,922	305,339	(75,417)	(24.7)	8.0	9.8
Net gain on capital investment instruments	6,429	1,844	4,585	248.6	0.2	0.1
Net gain on hedge accounting	(379)	2,050	(2,429)	(118.5)	-	0.1
Net other operating income	10,585	(242)	10,827	(>100.0)	0.4	-
General administrative expenses	(1,202,516)	(1,302,008)	99,492	(7.6)	70.4	68.8
Depreciation expense	(71,364)	(62,635)	(8,729)	13.9	4.2	3.3
Profit/loss on sale of other assets	6,384	1,050	5,334	508.0	0.2	-
Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities	17,804	36,204	(18,400)	(50.8)	0.6	1.2
Operating profit	**1,167,682**	**1,219,472**	**(51,790)**	**(4.2)**		
Share in net profits (losses) of entities valued with equity method	28	(1,326)	1,354	(102.1)	-	0.1
Profit before tax	**1,167,710**	**1,218,146**	**(50,436)**	**(4.1)**		
Income tax expense	(220,398)	(245,438)	25,040	(10.2)		
Net profit	**947,312**	**972,708**	**(25,396)**	**(2.6)**		
Total income	2,874,362	3,109,007	(234,645)	(7.5)	100.0	100.0
Total expense	(1,706,652)	(1,890,861)	184,209	(9.7)	100.0	100.0
Profit before tax	**1,167,710**	**1,218,146**	**(50,436)**	**(4.1)**		

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the financial year from 1 January to 31 December 2014

	2014	2013	Change	
	PLN '000	PLN '000	PLN '000	(%)
Net profit	**947,312**	**972,708**	**(25,396)**	**(2,6)**
Other comprehensive income that may be reclassified to income statement:				
Net valuation of financial assets available-for-sale	95,836	(300,754)	396,590	(131.9)
Foreign exchange differences	844	414	430	103.9
Other comprehensive income that may not be reclassified to the income statement:				
Net actuarial losses on specific services program valuation	(5,898)	-	(5,898)	-
Other comprehensive income after tax	**90,782**	**(300,340)**	**391,122**	**(130.2)**
Total comprehensive income for the period	**1,038,094**	**672,368**	**365,726**	**54.4**

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

Selected ratios characterizing the Group's financial position and results

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

	2014	2013
Profitability ratios		
Return on equity (net profit / average net assets) (1)	12.9%	13.2%
Return on assets (net profit / average assets) (1)	2.0%	2.2%
Interest margin (interest income / average working assets) – (interest expense / average interest-bearing liabilities) (1) (3)	2.5%	2.9%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (1) (3)	3.3%	4.0%
C/I ratio (general administrative expenses and depreciation expense / profit/loss on banking activities) (2)	52.6%	53.6%
Cost of borrowings (interest expense / average interest-bearing liabilities) (1)	0.8%	1.1%

	31.12.2014	31.12.2013
Asset quality ratios		
Impaired loans and advances to customers to gross loans and advances to customers	5.3%	7.6%
Provision coverage of not impaired loans and advances	0.4%	0.6%
Provision coverage of impaired loans and advances	77.5%	73.0%
Other ratios		
Common Equity Tier I Capital ratio	17.5%	17.5%
Common Equity Tier I (PLN'000)	4,944,496	4,908,707
Total regulatory capital requirement (PLN'000)	2,256,721	2,246,769

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.
4) Ratio calculated according to the current rules at a given reporting moment, appropriately: as of 31 December 2014 according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012; as of 31 December 2013 calculated according to the rules set out in Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 concerning the scope and detailed rules of calculation of capital requirements in respect of particular risks (PFSA Official Journal No. 2, item 11, as amended).

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.

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

The consolidated financial statements do not take into account the effects of deflation. The consumer price index (on a December to December basis) amounted to -1.0% in the audited year (inflation 0.7% 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 49,843,665 thousand. During the year total assets increased by PLN 4,445,276 thousand, i.e. by 9.8%.

- The assets were primarily financed by customer deposits. As at 31 December 2014 the amounts due to customers amounted to PLN 29,632,598 thousand and represented 59.4% of total equity and liabilities (an increase compared to the previous year by PLN 3,063,833 thousand, i.e. by 11.5%). An increase of amounts due to customers mainly resulted from increase of deposits from non-financial sector entities by PLN 3,559,667 thousand. At the same time, other liabilities related to securities sold under repurchase agreements decreased by PLN 352,153 thousand.

- As at the balance sheet date, amounts due to banks amounted to PLN 5,122,576 thousand, which represented an decrease by PLN 1,255,860 thousand, i.e. by 19.7% compared to the previous year. This decrease was mainly due to a decrease of term deposits (by PLN 986,291 thousand, i.e. by 29.4%) and current accounts (by PLN 197,677 thousand, i.e. by 22.9%).

- Total equity as at 31 December 2014 amounted to PLN 7,410,760 thousand. An increase of total equity by PLN 103,496 thousand, i.e. by 1.4% compared to the previous year was mainly due to:
  - net profit generated by the Group in the amount of PLN 947,312 thousand in the audited financial year;
  - payment of dividend by a Parent Company from the profit for 2013 in the amount of PLN 934,216 thousand;
  - increase of revaluation reserve related mainly to a difference from valuation of financial assets available-for-sale (net) by PLN 95,836 thousand;
  - decrease of supplementary capital for net actuarial losses on specific services program valuation by PLN 5,898 thousand.

- The higher level of financing influenced mainly an increase of financial assets held-for-trading and amounts due from customers (an increase by PLN 6,969,744 thousand, i.e. by 121.2% and by PLN 1,539,155 thousand, i.e. by 10.1% respectively compared to the balance as at the end of 2013).

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

- As at 31 December 2014, financial assets held-for-trading amounted to PLN 12,721,573 thousand and comprised mainly Treasury bonds in the amount of PLN 6,944,306 thousand and derivative instruments in the amount of PLN 5,624,460 thousand. The balance of the Treasury bonds valuation increased by PLN 4,842,770 thousand, i.e. by 230.4% and derivative instruments valuation increased by PLN 2,093,334 thousand, i.e. by 59.3%.

- As at 31 December 2014, an increase in valuation of derivative instruments both in financial assets held-for-trading and financial liabilities held-for-trading was primarily due to an increase in the valuation of interest rate swaps (an increase by PLN 1,889,794 thousand, i.e. by 64,9% on the assets side and by PLN 1,973,248 thousand, i.e. by 67,2% on the liabilities side).

- As at the end of the audited year, amounts due from banks amounted to PLN 2,065,685 thousand and decreased by PLN 1,474,242 thousand mainly due to a decrease of amounts payable as a result of purchasing securities with repurchase agreement (a decrease by PLN 1,160,179 thousand) and a decrease in the balance of deposits (a decrease by PLN 208,037 thousand).

- As at 31 December 2014, the net balance of amounts due from customers amounted to PLN 16,770,482 thousand, which was an increase by PLN 1,539,155 thousand, i.e. by 10.1% compared to the previous year. As at the end of 2014, the gross loan portfolio amounted to PLN 17,569,378 thousand and comprised mainly of loans and advances due from the non-financial sector entities in the gross amount of PLN 14,142,915 thousand, unlisted debt securities in the amount of PLN 1,118,225 thousand, purchased receivables in the amount of PLN 1,006,797 thousand and receivables related to securities buy under repurchase agreements in the gross amount of PLN 599,899 thousand. An increase of amounts due from customers was mainly due to an increase of the balance of loans and advances due from non-financial sector entities by the gross amount of PLN 1,220,946 thousand, as well as an increase of receivables related to securities buy under repurchase agreements in the gross amount of PLN 499,110 thousand.

- The balance of impairment allowances for amounts due from customers decreased by PLN 185,137 thousand, i.e. by 18.8% and as at 31 December 2014 amounted to PLN 798,896 thousand. This decrease significantly resulted from a decrease in the impairment allowances of amounts due from individual customers (a decrease of PLN 140,491 thousand, i.e. by 26.2%), mainly as a result of a sale of a part of a retail exposure and an improvement of the quality of the loan portfolio. As at 31 December 2014, the share of impaired loans and advances in the total balance of loans and advances decreased by 2.3 pp. and amounted to 5.3%. The coverage ratio of impairment allowances for impaired loans and advances amounted to 77.5% and increased by 4.5 pp. compared to the end of 2013.

- As at 31 December 2014, debt securities available for sale amounted to PLN 14,435,099 thousand and represented 29.0% of total assets. A decrease of this balance by PLN 3,180,942 thousand, i.e. 18.1% was due to a decrease of bills portfolio issued by central banks, and bonds portfolio issued by other banks which as at the end of the audited year decreased by PLN 5,248,896 thousand and PLN 106,700 thousand respectively. At the same time, the portfolio of Treasury bonds increased by PLN 2,174,654 thousand.

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

- The profit before tax for the audited year amounted to PLN 1,167,710 thousand and was lower than the profit before tax for 2013 by PLN 50,436 thousand, i.e. by 4.1%. The profit before tax comprised mainly: net interest income of PLN 1,163,943 thousand, net fee and commission income of PLN 618,931 thousand, net income on trading financial instruments and revaluation of PLN 382,160 thousand and net gain on debt investment securities of PLN 229,922 thousand, reduced mainly by general administrative expenses of PLN 1,202,516 thousand.

- Net interest income amounted to PLN 1,163,943 thousand and decreased by PLN 78,209 thousand, i.e. by 6.3% compared to the previous year. A decrease of the net interest income was due to a decrease of interest income by PLN 157,261 thousand. At the same time, interest expense decreased by PLN 79,052 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 95,932 thousand and PLN 83,134 thousand respectively. A decrease of interest income and expense was mainly due to lowering market interest rates.

- Net fee and commission income amounted to PLN 618,931 thousand in the audited year and was lower by PLN 23,371 thousand, i.e. by 3.6% compared to the previous year. This was due to a decrease of fee and commission income by PLN 36,576 thousand, which was mainly a result of a decrease of income from payment and credit cards primarily due to a decrease of the interchange fee and a decrease of brokerage services fees. At the same time, fee and commission expense decreased by PLN 13,205 thousand.

- General administrative expenses amounted to PLN 1,202,516 thousand in the audited year (including administrative expenses which amounted to PLN 622,522 thousand thousand and staff expenses which amounted to PLN 579.994 thousand) and decreased by PLN 99,492 thousand, i.e. by 7.6% 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 91,304 thousand, i.e. by 18.4%). A decrease of general administrative expenses for 2013 include the costs of restructuring of the retail branch network, which resulted on creating by the Group of 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 17,804 thousand (in 2013 it was positive and amounted to PLN 36,204 thousand). Net impairment comprised in particular of reversal of impairment losses on financial assets related to receivables from sold retail portfolio, previously written-off, in the amount of PLN 19,816 thousand.

- As a result, in the audited year the Group generated a net profit of PLN 947,312 thousand, which was lower by PLN 25,396 thousand, i.e. by 2.6% compared to the previous year.

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. There were no changes to the accounting policies compared with the previous year.

d. The consolidation of equity items and the determination of minority interests were 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 consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.

i. The consolidated financial statements of the Group as at and for the year ended 31 December 2013 were approved by Resolution No. 8 /2014 passed by the General Shareholders' Meeting of the Parent Company on 24 June 2014 and filed with the National Court Register in Warsaw on 27 June 2014.

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

j. The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

k. 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.

l. The total capital requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 2,256,721 thousand as at the balance sheet date. The Common Eqity Tier I Capital ratio as at 31 December 2014 amounted to 17.5%. As at the balance sheet date, the Group complied with the prudence principle in all material respects.

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

n. The information in the Group Directors' Report for the year from 1 January to 31 December 2014 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 2015.

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 2015, 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.

The 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 2015

Selected financial data

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2014	2013	2014	2013
Interest income	1,489,071	1,646,332	355,446	390,960
Fee and commission income	726,196	762,772	173,345	181,138
Profit before tax	1,167,710	1,218,146	278,736	289,277
Net profit	947,312	972,708	226,127	230,992
Total comprehensive income	1,038,094	672,368	247,797	159,669
Increase/decrease of net cash	612,753	(424,160)	146,266	(100,727)
Total assets	49,843,665	45,398,389	11,694,077	10,946,757
Amounts due to banks	5,122,576	6,378,436	1,201,834	1,538,010
Amounts due to customers	29,632,598	26,568,765	6,952,255	6,406,434
Shareholders' equity	7,410,760	7,307,264	1,738,676	1,761,975
Share capital	522,638	522,638	122,619	126,022
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	56.72	55.93	13.31	13.49
Capital adequacy ratio (in %)	17.5	17.5	17.5	17.5
Earnings per share (PLN/EUR)	7.25	7.44	1.73	1.77
Diluted net earnings per share (PLN/EUR)	7.25	7.44	1.73	1.77
Declared or paid dividends per share (PLN/EUR)*	7.43	7.15	1.74	1.72

**The presented ratios are related to declared dividend from the appropriation of the 2014 profit and dividend paid in 2014 from the appropriation of the 2013 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 at 31 December 2014 - PLN 4.2623 (as at 31 December 2013: PLN 4.1472); 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 2014 – PLN 4.1893 (in 2013: PLN 4.2110).*

The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2014

Contents

Consolidated income statement

PLN'000	For the period Note	2014	2013
Interest and similar income	4	1,489,071	1,646,332
Interest expense and similar charges	4	(325,128)	(404,180)
Net interest income	4	**1,163,943**	**1,242,152**
Fee and commission income	5	726,196	762,772
Fee and commission expense	5	(107,265)	(120,470)
Net fee and commission income	5	**618,931**	**642,302**
Dividend income	6	**5,783**	**4,416**
Net income on trading financial instruments and revaluation	7	**382,160**	**349,000**
Net gain on debt investment securities	8	**229,922**	**305,339**
Net gain on capital investment instruments	9	**6,429**	**1,844**
Net gain on hedge accounting	10	**(379)**	**2,050**
Other operating income	11	52,266	52,360
Other operating expenses	11	(41,681)	(52,602)
Net other operating income	11	**10,585**	**(242)**
General administrative expenses	12	**(1,202,516)**	**(1,302,008)**
Depreciation expense	13	**(71,364)**	**(62,635)**
Profit/loss on sale of other assets	14	**6,384**	**1,050**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	15	**17,804**	**36,204**
Operating profit		**1,167,682**	**1,219,472**
Share in net profits/losses of entities valued at equity method		**28**	**(1,326)**
Profit before tax		**1,167,710**	**1,218,146**
Income tax expense	16	**(220,398)**	**(245,438)**
Net profit		**947,312**	**972,708**
Including:			
Net profit for the Bank's shareholders		947,312	972,708
Weighted average number of ordinary shares (in pcs)	17	130,659,600	130,659,600
Net earnings per share (PLN)	17	7.25	7.44
Diluted net earnings per share (PLN)	17	7.25	7.44

The explanatory notes on pages 35-125 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

PLN'000 For the period	Note	2014	2013
Net profit		**947,312**	**972,708**
Other comprehensive income, that might be subsequrently reclassified to profit or loss:			
Net valuation of financial assets available-for-sale	18	95,836	(300,754)
Foreign exchange differences		844	414
Other comprehensive income that might not be subsequrently reclassified to profit or loss:			-
Net actuarial losses on specific services program valuation	18	(5,898)	-
Other comprehensive income after tax		**90,782**	**(300,340)**
Total comprehensive income for the period		**1,038,094**	**672,368**
Including:			
Comprehensive income due to the Bank's shareholders		1,038,094	672,368

The explanatory notes on pages 35-125 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

PLN'000	As at Note	31.12.2014	31.12.2013
ASSETS			
Cash and balances with Central Bank	19	1,522,949	778,464
Amounts due from banks	20	2,065,685	3,539,927
Financial assets held-for-trading	21	12,721,573	5,751,829
Debt securities available-for-sale	22	14,435,099	17,616,041
Equity investments valued at equity method	23	7,765	7,814
Equity investments available-for-sale	24	8,211	15,280
Amounts due from customers	25	16,770,482	15,231,327
Tangible fixed assets	26	366,857	384,581
Intangible assets	27	1,387,745	1,417,363
Current income tax receivables		13,255	80,854
Deferred income tax asset	29	157,319	203,132
Other assets	30	384,612	359,039
Non-current assets held-for-sale	31	2,113	12,738
Total assets		**49,843,665**	**45,398,389**
LIABILITIES			
Amounts due to banks	32	5,122,576	6,378,436
Financial liabilities held-for-trading	21	6,770,922	4,196,896
Hedging derivatives	33	-	24,710
Amounts due to customers	34	29,632,598	26,568,765
Provisions	35	26,409	89,284
Current income tax liabilities		186	84
Other liabilities	36	880,214	832,950
Total liabilities		**42,432,905**	**38,091,125**
EQUITY			
Share capital	38	522,638	522,638
Supplementary capital	38	3,000,298	2,997,759
Revaluation reserve	38	52,873	(42,963)
Other reserves	38	2,893,523	2,859,388
Retained earnings		941,428	970,442
Total equity		**7,410,760**	**7,307,264**
Total liabilities and equity		**49,843,665**	**45,398,389**

The explanatory notes on pages 35-125 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 at 1 January 2014	**522,638**	**2,997,759**	**(42,963)**	**2,859,388**	**970,442**	**-**	**7,307,264**
Total comprehensive income including:	-	-	95,836	(5,054)	947,312	-	1,038,094
net profit	-	-	-	-	947,312	-	947,312
exchange rate differences from foreign units' conversion	-	-	-	844	-	-	844
valuation of financial assets available-for-sale (net)	-	-	95,836	-	-	-	95,836
Net actuarial losses on specific services program valuation	-	-	-	(5,898)	-	-	(5,898)
Dividends paid	-	-	-	-	(934,598)	-	(934,598)
Transfer to capital	-	2,539	-	39,189	(41,728)	-	-
As at 31 December 2014	**522,638**	**3,000,298**	**52,873**	**2,893,523**	**941,428**	**-**	**7,410,760**

Note: 18, 38

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling shares	Total equity
As at 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 at 31 December 2013	**522,638**	**2,997,759**	**(42,963)**	**2,859,388**	**970,442**	**-**	**7,307,264**

Note: 18, 38

The explanatory notes on pages 35-125 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

PLN'000 For the period	2014	2013
A. Cash flows from operating activities		
I. Net profit	**947,312**	**972,708**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(342,970)**	**(1,420,732)**
Current and deferred income tax recognized in income statement	220,398	245,438
Share in net profits/losses of entities valued at equity method	(28)	1,326
Depreciation expense	71,364	62,635
Net impairment due to financial assets value loss	(17,893)	(37,878)
Net provisions (recoveries)	(3,792)	75,341
Net interest income	(1,163,943)	(1,242,152)
Profit/loss on sale of investments	(6,497)	(1,036)
Other adjustments	(13,682)	(6,599)
Cash flows from operating income before changes in operating assets and liabilities	**(914,073)**	**(902,925)**
Change in operating assets (excl. cash and cash equivalents)	**(3,796,967)**	**(2,425,219)**
Change in amounts due from banks	1,342,186	(1,923,465)
Change in amounts due from customers	(1,526,081)	1,031,456
Change in debt securities available-for-sale	3,346,747	(2,791,754)
Change in equity investments available-for-sale	7,264	4,715
Change in financial assets held-for-trading	(6,950,635)	1,040,797
Change in assets available-for-sale	(1,174)	(185)
Change in other assets	(15,274)	213,217
Change in operating liabilities (excl. cash and cash equivalents)	**4,368,070**	**1,907,412**
Change in amounts due to banks	(1,235,446)	3,971,067
Change in amounts due to customers	3,073,878	(280,422)
Change in liabilities held-for-trading	2,574,026	(1,649,508)
Change in amounts due to hedging derivatives	(24,710)	24,710
Change in other liabilities	(19,678)	(158,435)
Interest received	**1,433,535**	**1,501,761**
Interest paid	**(328,650)**	**(398,417)**
Income tax paid	**(136,088)**	**(295,197)**
III. Net cash flows from operating activities	**1,573,139**	**360,123**
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(47,144)	(28,286)
Disposal of tangible fixed assets	22,632	4,887
Purchase of intangible assets	(6,995)	(63,180)
Disposal of shares in subsidiaries	-	6,117
Disposal of fixed assets available-for-sale	16,452	88
Other investing inflows	-	438
Net cash flows from investing activities	**(15,055)**	**(79,936)**
C. Cash flows from financing activities		
Dividends paid	(934,598)	(756,519)
Inflows due to long-term loans from financial sector entities	197,577	135,102
Repayment of long-term loans from financial sector entities	(221,230)	(81,349)
Net cash flows from financing activities	**(958,251)**	**(702,766)**
D. Exchange rates differences resulting from cash and cash equivalents conversion	**12,920**	**(1,581)**
E. Net increase/decrease in cash and cash equivalents	**612,753**	**(424,160)**
F. Cash at the beginning of the period	**1,120,162**	**1,544,322**
G. Cash at the end of the period (see Note 47)	**1,732,915**	**1,120,162**

The explanatory notes on pages 35-125 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 Capital Group ("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 with headquarters in New Castle,USA. Citibank Overseas Investments Corporation, a subsidiary of Citibank N.A. with headquarters in New York, USA, 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	
		31.12.2014	31.12.2013
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

Financial information on subsidiaries, 31.12.2014

Subsidiaries fully consolidated

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97,47	264,580	124,815	139,765	23,725	4,566
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary undertaking	100,00	43,808	405	43,403	2,243	268
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100,00	424,698	318,187	106,511	97,581	15,582
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary undertaking	100.00	7,765	10,926	37	10,889	537	54

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	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	264,580	124,815	139,765	23,725	4,566

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 at 28 February 2015, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2013

Subsidiaries fully consolidated

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	390,203	239,899	150,304	38,299	15,105
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	43,451	316	43,135	9,650	(75)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	458,834	338,500	120,334	102,706	31,726
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary undertaking	100.00	7,814	10,950	38	10,912	199	76

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	390,203	239,899	150,304	38,299	15,105

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 PPH Spomasz Sp. z o.o. in liquadation. Financial data of Handlowy Investments S.A. originate from the audited financial statements prepared as at 28 February 2014, which was the entity's balance sheet date.

The financial data of a subsidiary that is not fully consolidated are immaterial to the consolidated financial statements. As at 31 December 2014, the financial data amounted to 0.02% of the Group's assets (as at 31 December 2013: 0.02%) and 0.01% of the Group's net profit (as at 31 December 2013: 0.01%), 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 2015. 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 2015. 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 2014 to 31 December 2014 and for the consolidated statements of financial situation as at 31 December 2014. The comparable financial data are presented for the period from 1 January 2013 to 31 December 2013 and for the consolidated statements of financial situation as at 31 December 2013.

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

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.

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

- IFRS 9 "Financial Instruments" awaiting EU's endorsement, was published by IASB on 24th July 2014 and is the final version superseding the previously published ones. The new standard implements changes in relation to IAS 39 in respect of the classification and measurement of financial assets and financial liabilities, impairment methodology that will focus on expected credit risk losses, and hedge accounting. IFRS 9 does not comprise hedge accounting of portfolio of financial assets or financial liabilities. The standard will be in force from the 1st January 2018. The application of the standard will influence the presentation and measurement of the financial instruments. The Group is in the process of estimating the potential impact of the standard on its financial statement.
- 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

This interpretation will be mandatory for the Group from 1 of January 2015. It is not expected to have any significant influence on the Bank's financial report.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed, including those 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 and annual financial result.

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:

PLN		31 December 2014	31 December 2013
1	USD	3.5072	3.0120
1	CHF	3.5447	3.3816
1	EUR	4.2623	4.1472

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.

Cash

Cash is cash in hand and receivables on current balances in banks, described in detail in note 47 "Cash flow statement".

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 the criteria are met 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 presents 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 the 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 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 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.

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"

Forbearance

In case the Bank grants a concession to the debtor, if it does not change significantly the terms and expected cash flows of the financial asset, the expected cash flows from the financial asset subject to the concession are included in the measurement of the asset using the prior effective interest rate for the instrument.

If the concession granted significantly changes the important terms or expected cash flows, the financial asset is derecognized and the new one is recognized at fair value on the day of the initial recognition.

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 liabialities are shown in the liabilities section "Provisions."

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 dependent entities classified as available-for-sale for which the fair value cannot be reasonably measured (for example the assets are not quoted on active market). 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 asset's 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 asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for the 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 2014.

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 the 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 "consolidated statement on financial position" 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 and pension, allowances, constituting defined benefit plans. Their amount depends on years worked in the Bank, falling directly before gaining rights to payment. For the future payments of retirement and pension allowances there is a reserve made, shown in "Liabilities" in "Other liabilities" and in "Activities costs and general and administrative expenses" of profit and loss account in part resulting from costs of current employment and time. Part of provision resulting from change of actuarial assumptions (economics and demographic) taken to valuation is shown in other total income.

A component of variable remuneration granted to the Management Board and to the persons holding managerial positions, having a significant impact on the Bank's risk profile, is also the deferred cash prize described in detail in Note 50 "Employee benefits".

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 50. 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 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 the 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 the case of products directly attributable to financial assets, where income is received up front for period longer than one month, to establish the way of showing income on distributing this insurance, a model of relative fair value is used. On the basis of proportions of fair value of insurance product's distribution service and fair value of loan against sum of these values is established allocation of total income. Income on selling insurance product is divided into following components:

- 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 the 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.

Above described income is shown with estimation of future returns on customers renouncing their insurance in given conditions.

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 the 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 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 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 an 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 the 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.

The main factors determining the change of counterparty credit risk estimations are: (i) change of fair value of derivative instruments correlated with a change of, inter alia, fx rates and interests rates, (ii) change of CDS quotes (iii) changes of credit risk ratings.

Impairment of loans

At each balance sheet date, the Group assesses whether there is 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 the write-off group method. 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 an 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 based 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 such as jubilee awards and retirement and pension allowances are subject to periodic actuarial estimation by an independent actuary. The height of provisions corresponds with the current value of future longterm liabilities of the Group to its employees according to employment and salaries on reporting day and is based on a number of assumptions in the field of staff statistics. 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 the 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 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 offers, 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	2014			2013		
PLN'000	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	516,149	647,794	1,163,943	581,022	661,130	1,242,152
Internal net interest income, including:	(53,302)	53,302	-	(42,238)	42,238	-
internal income	-	53,302	53 302	-	42,238	42,238
internal costs	(53,302)	-	(53 302)	(42,238)	-	(42,238)
Net fee and commission income	279,785	339,146	618,931	296,526	345,776	642,302
Dividend income	2,215	3,568	5,783	1,485	2,931	4,416
Net income on trading financial instruments and revaluation	350,697	31,463	382,160	315,639	33,361	349,000
Net gain on debt investment securities	229,922	-	229,922	305,339	-	305,339
Net gain on capital investment instruments	6,429	-	6,429	1,844	-	1,844
Net gain on hedge accounting	(379)	-	(379)	2,050	-	2,050
Other operating income	31,646	(21,061)	10,585	27,086	(27,328)	(242)
General administrative expenses	(515,892)	(686,624)	(1,202,516)	(559,520)	(742,488)	(1,302,008)
Depreciation expense	(23,937)	(47,427)	(71,364)	(25,823)	(36,812)	(62,635)
Profit/loss on sale of other assets	892	5,492	6,384	915	135	1,050
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	(1,621)	19,425	17,804	(26,113)	62,317	36,204
Operating profit	**875,906**	**291,776**	**1,167,682**	**920,450**	**299,022**	**1,219,472**
Share in net profits/losses of entities valued at equity method	28	-	28	(1,326)	-	(1,326)
Profit before tax	**875,934**	**291,776**	**1,167,710**	**919,124**	**299,022**	**1,218,146**
Income tax expenses			(220,398)			(245,438)
Net profit			**947,312**			**972,708**

As at	31.12.2014			31.12.2013		
PLN'000	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Total assets, including:	**43,663,564**	**6,180,101**	**49,843,665**	**39,816,056**	**5,582,333**	**45,398,389**
Assets valued at equity method	7,765	-	7,765	7,814	-	7,814
Non-current assets held-for-sale	-	2,113	2,113	-	12,738	12,738
Total liabilities and equity, including:	**40,417,857**	**9,425,808**	**49,843,665**	**36,070,064**	**9,328,325**	**45,398,389**
Liabilities	34,672,382	7,760,523	42,432,905	30,416,864	7,674,261	38,091,125

4. Net interest income

PLN'000	2014	2013
Interest and similar income due to:		
Balances with Central Bank	25,017	26,171
Amounts due from banks	60,334	45,142
Amounts from customers, including:	946,928	1,042,860
financial sector entities	20,333	37,430
non-financial sector entities	926,595	1,005,430
Debt securities available-for-sale	363,255	446,389
Debt securities held-for-trading	93,537	85,770
	1,489,071	**1,646,332**
Interest expense and similar charges due to:		
Balances with Central Bank	-	(1)
Amounts due to banks	(39,223)	(47,674)
Amounts due to financial sector entities	(84,999)	(101,451)
Amounts due to non-financial sector entities	(194,997)	(246,228)
Loans and advances received	(3,267)	(3,311)
Derivatives in hedge accounting	(2,642)	(5,515)
	(325,128))	**(404,180)**
Net interest income	**1,163,943**	**1,242,152**

Net interest income for 2014 includes interest accrued on impaired loans of PLN 4,125 thousand (for 2013: PLN 12,109 thousand).

5. Net fee and commission income

PLN'000	2014	2013
Fee and commission income		
Insurance and investment products (agency)	145,495	140,595
Payment and credit cards	205,391	233,716
Payment services	114,167	105,892
Custody services	111,433	104,521
Charges from cash loans	3,228	5,417
Brokerage operations	64,038	86,489
Cash management services on customers' accounts	27,617	26,007
Guarantees granted	14,991	14,090
Financial liabilities granted	6,226	5,343
Other	33,610	40,702
	726,196	**762,772**
Fee and commission expense		
Payment and credit cards	(50,248)	(57,944)
Brokerage operations	(21,680)	(24,801)
Fees paid to the National Depository for Securities (KDPW)	(20,473)	(21,060)
Broker's fees	(4,073)	(4,595)
Other	(10,791)	(12,070)
	(107,265)	**(120,470)**
Fee and commission income	**618,931**	**642,302**

The net fee and commission income for 2014 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 211,693 thousand (for 2013: PLN 240,269 thousand) and commission expenses in the amount of PLN 50,248 thousand (for 2013: PLN 57,944 thousand).

6. Dividend income

PLN'000	**2014**	**2013**
Securities available-for-sale	4,966	4,189
Securities held-for-trading	817	227
Total dividend income	**5,783**	**4,416**

7. Net income on trading financial instruments and revaluation

PLN'000	**2014**	**2013**
Net income on financial instruments measured at fair value through profit or loss from:		
Debt instruments	112,538	31,312
Equity instruments	(1,429)	(470)
Derivative instruments, including:	(20,258)	31,511
Interest rate	(22,964)	28,237
	90,851	**62,353**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	292,999	32,509
Revaluation	(1,690)	254,138
	291,309	**286,647**
Net income on trading financial instruments and revaluation	**382,160**	**349,000**

The impact on valuation resulting from counterparty credit risk on derivative transactions for 2014 in the amount of PLN 10,935 thousand (in 2013, net write-offs amounted to PLN 28,868 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 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

PLN'000	**2014**	**2013**
Net gain from debt securities available-for-sale	**229,922**	**305,339**

9. Net gain on capital investment instruments

PLN'000	**2014**	**2013**
Net gain from capital investment instruments available-for-sale	**6,429**	**1,844**

10. Hedge accounting income

PLN'000	**2014**	**2013**
Fair value of securities hedge accounting		
Net gain on hedged transaction valuation	25,987	26,474
Net gain on hedging transaction valuation	(26,366)	(24,424)
Hedge accounting income	**(379)**	**2,050**

Detailed information on hedge accounting applied in the Group is presented in the further part of these Statements in note 41.

11. Net other operating income

PLN'000	**2014**	**2013**
Other operating income		
Services for related parties	8,894	10,497
Rental of office space	9,362	7,417
Reversal of provision on litigation	5,679	-
Income from settlement of value added tax from previous years	-	6,500
Other	28,331	27,946
	52,266	**52,360**
Other operating expenses		
Amicable procedure and debt collection expenses	(20,480)	(20,197)
Fixed assets held-for-sale valuation	(1,152)	-
Fixed assets held-for-sale maintenance cost	(592)	(399)
Creation of provisions for litigations (net)	-	(9,221)
Other	(19,457)	(22,785)
	(41,681)	**(52,602)**
Net other operating income	**10,585**	**(242)**

12. General administrative expenses

PLN'000	**2014**	**2013**
Staff expenses		
Remuneration costs, including:	(403,994)	(495,298)
Provisions for retirement allowances	(23,842)	(25,807)
Bonuses and rewards, including:	(109,084)	(123,304)
Payments related to own equity instruments	(17,124)	(36,189)
Rewards for long time employment	(847)	(726)
Social insurance costs	(66,916)	(71,023)
	(579,994)	**(689,625)**
Administrative expenses		
Telecommunication fees and hardware purchases	(174,244)	(191,038)
Costs of external services, including advisory, audit, consulting services	(71,405)	(63,019)

PLN'000	**2014**	**2013**
Building maintenance and rent costs	(100,037)	(101,919)
Advertising and marketing costs	(25,163)	(23,321)
Cash management service, KIR service and other transactional costs	(50,831)	(47,600)
Costs of external services related to the distribution of banking products	(63,933)	(55,249)
Postal services, office supplies and printmaking costs	(13,991)	(19,098)
Training and education costs	(4,003)	(7,171)
Banking supervisory expenses	(3,201)	(1,173)
Other expenses	(115,714)	(102,795)
	(622,522)	**(612,383)**
Total general administrative expenses	**(1,202,516)**	**(1,302,008)**

Staff expenses in 2014 include PLN 23,633 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2013: PLN 37,040 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.

Workforce restructuring provision made in 2013 was fuly used to 31 December 2014: In 2014 in the amount of PLN 49,291 thousand and in 2013 in the amount of PLN 3,933 thousand and the rest of it was reversed in the amount PLN 4,496 thousand (see note 35).

To 31 December 2014 the branch chain restructuring provision was used: in 2014 in the amount of PLN 9,793 thousand and in 2013 in the amount of PLN 159 thousand and added was PLN 6,773 thousand (see note 35).

13. Depreciation expense

PLN'000	**2014**	**2013**
Depreciation of property and equipment	(35,837)	(39,422)
Amortization of intangible assets	(35,527)	(23,213)
Depreciation expense, total	**(71,364)**	**(62,635)**

14. Sale of other assets

PLN'000	**2014**	**2013**
Profits on:		
Sale of tangible fixed assets	745	424
Sale of fixed assets held-for-sale	5,803	88
Sale of shares in subsidiaries	-	585
	6,548	**1,097**
Losses on:		
Sale of assets available for sale	(164)	-
Sale of tangible fixed assets	-	(47)
	(164)	**(47)**
Sale of other assets	**6,384**	**1,050**

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

PLN'000	2014			
	Corporate customers	Retail customers	Banks	Total
Impairment allowances for financial assets:				
Amounts due from customers	(98,339)	(115,753)	(4,503)	(218,595)
Amounts due from matured transactions in derivative instruments	(302)	-	-	(302)
Other	(5,663)	1,537	-	(4,126)
	(104,304)	**(114,216)**	**(4,503)**	**(223,023)**
Reversals of impairment allowances for financial assets:				
Amounts due from customers	98,201	118,613	2,803	219,617
Amounts due from matured transactions in derivative instruments	690	-	-	690
Recovery on sale of debt	792	19,816	-	20,608
	99,683	**138,429**	**2,803**	**240,915**
Net impairment due to financial assets value losses	**(4,621)**	**24,213**	**(1,700)**	**17,892**
Establish of provisions for granted financial and guarantee commitments	(30,666)	(435)	-	(31,101)
Release of provisions for granted financial and guarantee commitments	30,977	36	-	31,013
Net impairment due to provisions for granted financial and guarantee commitments	**311**	**(399)**	**-**	**(88)**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**(4,310)**	**23,814**	**(1,700)**	**17,804**

PLN'000	2013			
	Corporate customers	Retail customers	Banks	Total
Impairment write-offs of 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 write-offs of 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**
Establishment 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**

16. Income tax expense

Recognized in the income statement

PLN'000	2014	2013
Current tax		
Current year	(204,581)	(155,875)
Adjustments for prior years	8,922	(3,272)
	(195,659)	**(159,147)**
Deferred tax		
Origination and reversal of temporary differences	(24,716)	(86,202)
Written-off assets due to deferred tax	(23)	(89)
	(24,739)	**(86,291)**
Total income tax expense in income statement	**(220,398)**	**(245,438)**

Reconciliation of effective tax rate

PLN'000	2014	2013
Profit before tax	1,167,710	1,218,146
Income tax at the domestic corporate tax rate of 19%	(221,865)	(231,448)
Impairment write-offs not constituting deductible expenses	(10,227)	(9,328)
Deductible income not recognized in the income statement	(397)	(536)
Deductible expenses not recognized in the income statement	(337)	546
Non taxable income	2,306	5,329
Technological relief	9,637	-
Other permanent differences, including other non-deductible expenses	485	(10,001)
Total tax expenses	**(220,398)**	**(245,438)**
Effective tax rate	**18.87%**	**20.15%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2014 is related to debt and equity instruments available-for-sale and amounted to PLN (11,019) thousand (31 December 2013: PLN 10,078 thousand).

17. Earnings per share

As at 31 December 2014, earnings per share amounted to PLN 7.25 (31 December 2013: PLN 7.44).

The calculation of earnings per share at 31 December 2014 was based on profit attributable to shareholders of PLN 947,312 thousand (31 December 2013: PLN 972,708 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2014 of 130,659,600 (31 December 2013: 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.

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2014	**(53,041)**	**10,078**	**(42,963)**
AFS valuation change	348,238	(66,165)	282,073
Valuation of sold AFS moved to income statement	(229,922)	43,685	(186,237)
Net actuarial losses on specific services program valuation	(7,281)	1,383	(5,898)
As at 31 December 2014	**57,994**	**(11,019)**	**46,975**

PLN'000	Gross amount	Deferred income tax	Net amount
As at 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 at 31 December 2013	**(53,041)**	**10,078**	**(42,963)**

19. Cash and balances with the Central Bank

PLN'000	31.12.2014	31.12.2013
Cash in hand	495,408	532,142
Current balances with Central Bank	1,027,541	246,322
Cash and balances with the Central Bank, total	**1,522,949**	**778,464**

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 at 31 December 2014 PLN 1,105,461 thousand (31 December 2013: PLN 1,076,336 thousand).

20. Amount due from banks

PLN'000	31.12.2014	31.12.2013
Current accounts	210,424	342,006
Deposits	406,948	614,985
Loans and advances	359,072	347,686
Unlisted debt securities	28,456	-
Receivables due to purchased securities with repurchase agreement	681,694	1,841,873
Deposits pledged as collateral of derivative instruments and stock market transactions	381,971	394,188
Other receivables	-	362
Total gross amount	**2,068,565**	**3,541,100**
Impairment write-offs	(2,880)	(1,173)
Total net amount due from banks	**2,065,685**	**3,539,927**

The movement in amounts due from banks is as follows:

PLN'000	2014	2013
As at 1 January	**(1,173)**	**(126)**
Increases (due to):		
Write-offs creation	(4,503)	(2,697)
Other	(7)	(11)

PLN'000	2014	2013
Decreases (due to):		
Write-offs release	2,803	1,661
As at 31 December	**(2,880)**	**(1,173)**

As at 31 December 2014 and 31 December 2013, 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

PLN'000	31.12.2014	31.12.2013
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	137,770	114,137
Non financial entities	14,799	-
Government	6,944,306	2,101,536
	7,096,875	**2,215,673**
Including:		
Listed on the active market	6,284,719	1,544,888
Unlisted on the active market	812,156	670,785
Equity instruments held-for-trading	**238**	**5,030**
Including:		
Listed on the active market	238	5,030
Derivative financial instruments	**5,624,460**	**3,531,126**
Financial assets held-for-trading, total	**12,721,573**	**5,751,829**

*As at 31 December 2014, some of the securities (bonds) issued by banks in the amount of PLN 2 thousand are covered by Government guarantees (31 December 2013: PLN 114,137 thousand)

Financial liabilities held-for-trading

PLN'000	31.12.2014	31.12.2013
Short positions in financial assets	1,005,545	481,601
Derivative financial instruments	5,765,377	3,715,295
Financial liabilities held-for-trading	**6,770,922**	**4,196,896**

As at 31 December 2014 and 31 December 2013, the Group did not hold any financial assets and liabilities designated for measurement at fair value through profit or loss at initial recognition.

As at 31 December 2014, financial assets from derivatives transactions contain the valuation adjustments due to higher counterparty credit risk for outstanding transactions of PLN 4,526 thousand (31 December 2013: PLN 10,065 thousand).

Derivative financial instruments as at 31 December 2014

PLN'000	Nominal amount with remaining life of: less than 3 months	between 3 months and 1 year	between 1 and 5 years	more than 5 years	Total	Fair value: Assets	Liabilities
Interest rate instruments	**40,543,483**	**72,737,320**	**137,373,801**	**26,354,969**	**277,009,573**	**5,225,862**	**5,298,847**
FRA	24,750,000	16,070,000	8,750,000	-	49,570,000	33,155	24,400
Interest rate swaps (IRS)	11,814,453	51,697,423	114,835,056	21,507,411	199,854,343	4,799,519	4,911,757
Currency-interest rate swaps (CIRS)	3,911,001	4,969,897	13,179,080	4,847,558	26,907,536	388,329	357,596
Interest rate options	-	-	609,665	-	609,665	4,859	4,902
Futures*	68,029	-	-	-	68,029	-	192
Currency instruments	**17,589,669**	**8,563,334**	**3,827,361**	**62,766**	**30,043,130**	**367,745**	**434,964**
FX forward	1,930,755	1,185,365	179,438	62,766	3,358,324	45,669	82,794
FX swap	14,311,477	5,419,599	1,923,420	-	21,654,496	273,103	303,479
Foreign exchange options	1,347,437	1,958,370	1,724,503	-	5,030,310	48,973	48,691
Securities transactions	**889,035**	**-**	**-**	**-**	**889,035**	**1,234**	**1,978**
Securities purchased / sold pending delivery	889,035	-	-	-	889,035	1,234	1,978
Commodity transactions	**259,056**	**227,009**	**-**	**-**	**486,065**	**29,619**	**29,588**
Swaps	192,385	227,009	-	-	419,394	29,619	29,588
Options	66,671	-	-	-	66,671	-	-
Total derivative instruments	**59,281,243**	**81,527,663**	**141,201,162**	**26,417,735**	**308,427,803**	**5,624,460**	**5,765,377**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2013

PLN'000	Nominal amount with remaining life of: less than 3 months	between 3 months and 1 year	between 1 and 5 years	more than 5 years	Total	Fair value: 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**
Swap	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*

22. Debt securities available-for-sale

PLN'000	**31.12.2014**	**31.12.2013**
Bonds and notes issued by:		
Central bank	4,499,750	9,748,646
Other banks*	1,182,039	1,288,739
Government, including:	8,753,310	6,578,656
covered bonds in fair value hedge accounting	-	1,836,219
Debt securities available-for-sale, total	**14,435,099**	**17,616,041**
Including:		
Listed on active market instruments	7,606,151	6,177,716
Unlisted on active market instruments	6,828,948	11,438,325

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

PLN'000	**2014**	**2013**
As at 1 January	**17,616,041**	**15,003,003**
Increases (due to):		
Purchases	319,403,242	413,942,712
Revaluation	102,367	-
Exchange differences	177,579	-
Depreciation of discount, premium and interest	147,476	251,687
Decreases (due to):		
Sale	(322,922,652)	(411,162,974)
Revaluation	-	(344,902)
Foreign exchange differences	-	(14,457)
Amortization of discount, premium and interest	(88,954)	(59,028)
As at 31 December	**14,435,099**	**17,616,041**

*As at 31 December 2014, some of the securities (bonds) issued by other banks in the amount of PLN 266,542 thousand are covered by Government guarantees (31 December 2013: PLN 895,910 thousand)

23. Equity investments valued at equity method

PLN'000	**31.12.2014**	**31.12.2013**
Shares in subsidiaries	**7,765**	**7,814**
Including:		
Unlisted instruments	7,765	7,814

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

PLN'000	**2014**	**2013**
As at 1 January	**7,814**	**15,110**
Decreases (due to):		
Revaluation	(49)	(1,764)
Sale*	-	(5,532)
As at 31 December	**7,765**	**7,814**

*In 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 to PLN 5,532 thousand.

24. Equity investments available-for-sale

PLN'000	31.12.2014	31.12.2013
Stocks and shares in other entities	19,651	35,910
Impairment	(11,440)	(20,630)
Other equity investments available-for-sale, total	**8,211**	**15,280**
Including:		
Listed on active market instruments	1,280	1,163
Unlisted on active market instruments	6,931	14,117

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

PLN'000	2014	2013
As at 1 January	**15,280**	**19,921**
Increases (due to):		
Revaluation	116	74
Decreases (due to):		
Sale*	(7,185)	(4,715)
As at 31 December	**8,211**	**15,280**

*In 2014 sold were:

- Shares in Kuźnia Polska S.A. representing 5.20% of capital and 5.20% of votes at the General Meeting. The book value of sold shares amounted to PLN 1,536 thousand.
- Part of shares in Polska Koncern Mięsny DUDA S.A. representing 4.52% of capital and 4.52% of votes at the General Meeting. The book value of sold shares amounted to PLN 5,649 thousand.

*In 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 to PLN 4,715 thousand.

25. Amounts due from customers

PLN'000	31.12.2014	31.12.2013
Amounts due from financial sector entities		
Loans and advances	340,841	487,673
Purchased receivables	-	2
Receivables subject to securities sale and repurchase agreements	599,899	100,789
Guarantee funds and deposits pledged as collateral	98,011	136,349
Other receivables	1,695	9,781
Total gross amount	**1,040,446**	**734,594**
Impairment write-offs	(19,082)	(19,128)
Total net amount	**1,021,364**	**715,466**
Amounts due from non-financial sector entities		
Loans and advances	14,142,915	12,921,969
Unlisted debt securities	1,118,225	718,003
Purchased receivables	1,006,797	1,416,240
Effected guarantees	1,824	2,173
Other receivables*	259,171	422,381

PLN'000	31.12.2014	31.12.2013
Total gross amount	**16,528,932**	**15,480,766**
Impairment write-offs	(779,814)	(964,905)
Total net amount	**15,749,118**	**14,515,861**
Total net amounts due from customers	**16,770,482**	**15,231,327**

*"Other receivables" includes leasing receivables in the amount of PLN 231,591 thousand (31 December 2013: PLN 419,024 thousand).

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

PLN'000	31.12.2014	31.12.2013
Portfolio impairment loss	(387,688)	(522,779)
Individual impairment loss	(339,901)	(374,159)
Incurred but not reported losses (IBNR)	(71,307)	(87,095)
Impairment loss, total	**(798,896)**	**(984,033)**

The movement in amounts due from customers is as follows:

	2014			2013		
PLN'000	Corporate customers	Retail customers	Total	Corporate customers	Retail customers	Total
As at 1 January	**(448,225)**	**(535,808)**	**(984,033)**	**(470,133)**	**(660,794)**	**(1,130,927)**
Increases (due to):						
Creation of write-offs	(98,339)	(115,753)	(214,092)	(103,926)	(136,091)	(240,017)
Creation of write-offs in the period for receivables in respect of matured derivative instrument transactions	-	-	-	(4,814)	-	(4,814)
Other	(2,201)	-	(2,201)	(1,044)	-	(1,044)
Decreases (due to):						
Restating receivables	43,993	136,264	180,257	35,544	90,053	125,597
Net wirte-offs on receivables on taken instruments transactions	388	-	388	-	-	-
Write-offs release	98,201	118,613	216,814	93,944	167,916	261,860
Sale of receivables	-	-	-	2,273	2,748	5,021
Other	2,605	1,366	3,971	(69)	360	291
As at 31 December	**(403,578)**	**(395,318)**	**(798,896)**	**(448,225)**	**(535,808)**	**(984,033)**

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:

PLN'000	31.12.2014	31.12.2013
Gross finance lease receivables	238,625	438,805
Unrealized financial income	(7,034)	(19,781)
Net finance lease receivables	**231,591**	**419,024**

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

PLN'000	31.12.2014	31.12.2013
Less than 1 year	164,789	247,239
Between 1 and 5 years	73,836	189,212
More than 5 years	-	2,354
	238,625	**438,805**

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

PLN'000	31.12.2014	31.12.2013
Less than 1 year	159,888	235,161
Between 1 and 5 years	71,703	181,509
More than 5 years	-	2,354
	231,591	**419,024**

As at 31 December 2014, impairment of finance lease receivables amounted to PLN 62,258 thousand (as at 31 December 2013: PLN 62,062 thousand).

Finance lease income is presented in interest income.

26. Tangible fixed assets

Movements of tangible fixed assets in 2014

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2014	**645,773**	**169**	**48,517**	**320,440**	**4,327**	**1,019,226**
Increases:						
Purchases	617	-	-	8,315	38,212	47,144
Other increases	-	-	-	1,642	-	1,642
Decreases:						
Disposals	(27,255)	(68)	(31,621)	(1,207)	-	(60,151)
Liquidation	(33,117)	-	-	(31,817)	-	(64,934)
Classified to fixed assets available for sale	(2,036)	-	-	(302)	-	(2,338)
Other decreases	-	-	-	(18)	-	(18)
Transfers	17,767	-	-	10,237	(32,390)	(4,386)
As at 31 December 2014	**601,749**	**101**	**16,896**	**307,290**	**10,149**	**936,185**
Depreciation and amortization						
As at 1 January 2014	**316,128**	**156**	**29,139**	**289,222**	**-**	**634,645**
Increases:						
Depreciation change for the period	16,560	11	4,208	15,058	-	35,837
Other increases	-	-	-	683	-	683
Decreases:						
Disposals	(11,097)	(68)	(25,954)	(1,093)	-	(38,212)
Liquidation	(31,286)	-	-	(31,164)	-	(62,450)
Classified to fixed assets available for sale	(893)	-	-	(271)	-	(1,164)
Other decreases	-	-	-	(11)	-	(11)
As at 31 December 2014	**289,412**	**99**	**7,393**	**272,424**	**-**	**569,328**

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Carrying amount						
As at 1 January 2014	329,645	13	19,378	31,218	4,327	384,581
As at 31 December 2014	**312,337**	**2**	**9,503**	**34,866**	**10,149**	**366,857**

Movements of tangible fixed assets in 2013

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 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 at 31 December 2013	**645,773**	**169**	**48,517**	**320,440**	**4,327**	**1,019,226**
Depreciation and amortization						
As at 1 January 2013	**314,604**	**288**	**23,808**	**320,560**	**-**	**659,260**
Increases:						
Depreciation charge 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 at 31 December 2013	**316,128**	**156**	**29,139**	**289,222**	**-**	**634,645**
Carrying amount						
As at 1 January 2013	342,559	29	29,888	34,175	3,265	409,916
As at 31 December 2013	**329,645**	**13**	**19,378**	**31,218**	**4,327**	**384,581**

27. Intangible assets

Movements of intangible assets in 2014

PLN'000	Goodwill	Patents, licenses, etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2014	**1,245,976**	**2,249**	**401,546**	**18,845**	**6,027**	**1,674,643**
Increases:						
Purchases	-	9	1,237	-	5,749	6,995
Other increases	-	-	50	-	-	50
Decreases:						
Disposals	-	-	(80)	(326)	-	(406)
Liquidation	-	-	(6,433)	-	-	(6,433)
Transfers	-	186	5,294	-	(5,987)	(507)
As at 31 December 2014	**1,245,976**	**2,444**	**401,614**	**18,519**	**5,789**	**1,674,342**

PLN'000	Goodwill	Patents, licenses, etc.	Software	Other intangible assets	Prepayments	Total
Depreciation and amortization						
As at 1 January 2014	**-**	**2,121**	**236,332**	**18,827**	**-**	**257,280**
Increases:						
Depreciation charge for the period	-	168	35,352	7	-	35,527
Other increases	-	-	393	-	-	393
Decreases:						
Disposals	-	-	(77)	(329)	-	(406)
Liquidation	-	-	(6,166)	-	-	(6,166)
Other decreases	-	-	(31)	-	-	(31)
As at 31 December 2014	**-**	**2,289**	**265,803**	**18,505**	**-**	**286,597**
Carrying amount						
As at 1 January 2014	1,245,976	128	165,214	18	6,027	1,417,363
As at 31 December 2014	**1,245,976**	**155**	**135,811**	**14**	**5,789**	**1,387,745**

Movements of intangible assets in 2013

PLN'000	Goodwill	Patents, licenses, etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 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 at 31 December 2013	**1,245,976**	**2,249**	**401,546**	**18,845**	**6,027**	**1,674,643**
Depreciation and amortization						
As at 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 at 31 December 2013	**-**	**2,121**	**236,332**	**18,827**	**-**	**257,280**
Carrying amount						
As at 1 January 2013	1,245,976	175	25,493	24	108,263	1,379,931
As at 31 December 2013	**1,245,976**	**128**	**165,214**	**18**	**6,027**	**1,417,363**

As at 31 December 2014, 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 at 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 at 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. Assignment was made on basis of the discounted cash flows models on the basis of strategy before merge. After fusion reallocation of goodwill was conducted on the basis of assets' relative values transferred to another center comparing to assets held in the center given. 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	**31.12.2014**
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 2014, the discount rate amounted to 8.45% (in 2013: 9.75%).

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 at 31 December 2014.

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

PLN'000	**31.12.2014**	**31.12.2013**
Deferred income tax asset	1,155,827	830,120
Deferred income tax provision	(998,508)	(626,988)
Deferred income tax net asset	**157,319**	**203,132**

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:

PLN'000	**31.12.2014**	**31.12.2013**
Interest accrued and other expense	23,217	25,615
Revaluation impairment write-offs	51,768	86,678
Unrealized premium from securities available-for-sale	10,531	3,445

PLN'000	31.12.2014	31.12.2013
Derivative financial instruments negative valuation	956,637	583,798
Negative valuation of securities held-for-trading	3,866	2,514
Income collected in advance	8,469	11,213
Valuation of shares	2,916	4,662
Commissions	7,511	9,599
Debt securities available-for-sale	-	10,078
Staff expenses and other cost due to pay	65,189	75,132
Differences between balance-sheet and tax value of leases	790	790
Other	24,933	16,596
Deferred tax asset	**1,155,827**	**830,120**

Deferred tax provision is attributable to the following:

PLN'000	31.12.2014	31.12.2013
Interest accrued (income)	28,936	20,893
Derivative financial instruments positive valuation	929,863	561,273
Unrealized securities available-for-sale discount	789	1,332
Income to receive	4,864	6,085
Positive valuation of securities held-for-trading	1,533	1,370
Debt securities available-for-sale	14,430	5,030
Investment relief	14,351	15,853
Valuations of shares	1,863	1,858
Other	1,879	13,294
Deferred tax provision	**998,508**	**626,988**
Net deferred income tax asset	**157,319**	**203,132**

Movement in temporary differences during the year 2014

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2014	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2014
Interest accrued and other expense	25,615	(2,398)	-	23,217
Revaluation impairment write-offs	86,678	(34,910)	-	51,768
Unrealized premium from securities available-for-sale	3,445	7,086	-	10,531
Derivative financial instruments negative valuation	583,798	372,839	-	956,637
Negative valuation of securities held-for-trading	2,514	1,352	-	3,866
Income collected in advance	11,213	(2,744)	-	8,469
Valuation of shares	4,662	(1,746)	-	2,916
Commissions	9,599	(2,088)	-	7,511
Debt securities available-for-sale	10,078	-	(10,078)	-
Staff expenses and other cost due to pay	75,132	(11,326)	1,383	65,189
Differences between balance-sheet and tax value of leases	790	-	-	790
Other	16,596	8,337	-	24,933
	830,120	**334,402**	**(8,695)**	**1,155,827**

The movement in temporary differences relating to deferred tax provision:

PLN'000	As at 1 January 2014	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2014
Interest accrued (income)	20,893	8,043	-	28,936
Derivative financial instruments positive valuation	561,273	368,590	-	929,863
Unrealized securities available-for-sale discount	1,332	(543)	-	789
Income to receive	6,085	(1,221)	-	4,864
Positive valuation of securities held-for-trading	1,370	163	-	1,533
Debt and equity securities available-for-sale	5,030	(3,002)	12,402	14,430
Investment relief	15,853	(1,502)	-	14,351
Valuations of shares	1,858	5	-	1,863
Other	13,294	(11,415)	-	1,879
	626,988	**359,118**	**12,402**	**998,508**
Change in net deferred income tax assets	**203,132**	**(24,716)**	**(21,097)**	**157,319**

Movement in temporary differences during the year 2013

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2013	Adjustments recognized in income	Adjustments recognized in equity	As at 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 and capital securities available-for-sale	-	-	10,078	10,078
Staff expenses and other cost 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 liability:

PLN'000	As at 1 January 2013	Adjustments recognized in income	Adjustments recognized in equity	As at 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 capital 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

PLN'000	As at 1 January 2013	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2013
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**

30. Other assets

PLN'000	31.12.2014	31.12.2013
Interbank settlements	1,128	1,982
Settlements related to brokerage activity	215,786	194,805
Income to receive	47,311	50,821
Staff loans out of the Social Fund	18,989	21,223
Sundry debtors	91,773	77,772
Prepayments	9,625	12,436
Other assets, total	**384,612**	**359,039**
Including financial assets*	327,676	295,782

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

31. Non-current assets held-for-sale

As at 31 December 2014, non-current assets held-for-sale include the Group’s own property with a total value of PLN 2,113 thousand (31 December 2013: PLN 12,738 thousand).

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

PLN'000	2014	2013
As at 1 January	**12,738**	**12,554**
Increases:		
Acquisition of properties for debts	-	184
Reclassified from bank properties	1,174	-
Decreases:		
Revaluation	(1,152)	-
Disposal	(10,647)	-
As at 31 December	**2,113**	**12,738**

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

PLN'000	31.12.2014	31.12.2013
Current accounts	663,831	861,508
Term deposits	2,370,212	3,356,503
Loans and advances received	351,533	374,898
Liabilities due to sold securities under repurchase agreements	1,726,049	1,783,602

PLN'000	**31.12.2014**	**31.12.2013**
Other liabilities	10,951	1,925
Total amounts due to banks	**5,122,576**	**6,378,436**

33. Hedging derivatives

Liabilities – Negative valuation

PLN'000	**31.12.2014**	**31.12.2013**
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	-	24,710

Hedging derivates as at 31 December 2013

PLN'000	**Nominal amount with remaining life of**				**Total**
	less than 3 months	**between 3 months and 1 year**	**between 1 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

PLN'000	**31.12.2014**	**31.12.2013**
Deposits from financial sector entities		
Current accounts	238,351	320,634
Term deposits	2,877,084	2,939,233
	3,115,435	**3,259,867**
Deposits from non-financial sector entities		
Current accounts, including:	19,299,093	16,983,122
corporate customers	8,594,113	7,703,769
individual customers	6,372,762	5,931,907
public sector units	4,332,218	3,347,446
Term deposits, including:	7,085,420	5,841,724
corporate customers	5,668,835	4,649,633
individual customers	1,289,231	975,276
public sector units	127,354	216,815
	26,384,513	**22,824,846**
Total deposits	**29,499,948**	**26,084,713**
Other liabilities		
Securities sold under repurchase agreements	-	352,153
Other liabilities, including:	132,650	131,899
liabilities due to deposits	78,153	101,646
Total other liabilities	**132,650**	**484,052**
Total amounts due to customers	**29,632,598**	**26,568,765**

35. Provisions

PLN'000	31.12.2014	31.12.2013
Litigation	9,634	15,313
Granted financial and guarantee liabilities	13,238	13,150
Workforce restructuring	158	53,787
Restructuring of the branch network	3,379	7,034
Provisions, total	**26,409**	**89,284**

The movement in provisions is as follows:

PLN'000	2014	2013
As at 1 January	**89,284**	**28,656**
Provisions for:		
Litigation	15,313	11,145
Granted financial and guarantee commitments	13,150	11,476
Workforce restructuring	53,787	-
Restructuring of branches chain*	7,034	3,741
Other	-	2,294
Increases:		
Charges to provisions in the period:	42,725	108,229
litigation	4,693	9,646
granted financial and guarantee commitments	31,101	32,528
workforce restructuring	158	57,720
restructuring of the branch network	6,773	7,193
other	-	1,142
Other increases in provisions, including:	1	12
For litigation	1	12
Decreases:		
Release of provisions in the period	(46,517)	(32,888)
litigation	(10,373)	(424)
granted financial and guarantee commitments	(31,013)	(30,854)
Employment restructuring	(4,496)	
restructuring of the branch network*	(635)	(512)
other	-	(1,098)
Provisions used in the period, including:	(59,084)	(14,725)
litigation	-	(5,066)
workforce restructuring	(49,291)	(3,933)
restructuring of the branch network*	(9,793)	(3,388)
other	-	(2,338)
As at 31 December	**26,409**	**89,284**

*Provision for branch chain restructuring on 1 January 2013 concerns the rest of the amount of made in 2012 provision for branch chain restructuring in consumer banking, that was used in 2013 in the amount of PLN 3,229 thousand released in the amount of PLN 512 thousand.

36. Other liabilities

PLN'000	31.12.2014	31.12.2013
Staff benefits	51,177	52,603
Interbank settlements	70,089	89,729
Interbranch settlements	2,963	3,535
Settlements related to brokerage activity	214,167	189,762
Settlements with Tax Office and National Insurance (ZUS)	23,297	22,912
Sundry creditors	134,470	111,945
Accruals:	363,723	343,541
Provision for employee payments	123,882	126,704
Provision for employee retirement	40,677	31,465
Provision for employee jubilee payments	268	3,533
IT services and bank operations support	113,059	91,149
Consultancy services and business support	26,248	43,051
Other	59,589	47,639
Deferred income	20,328	18,923
Other liabilities, total	**880,214**	**832,950**
Including financial liabilities*	836,589	791,115

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

37. Financial assets and liabilities by contractual maturity

As at 31 December 2014

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	2,068,565	1,508,644	216	354,470	205,235	-
Financial assets held-for-trading							
Debt securities held-for-trading	21	7,096,875	162	179,636	759,557	4,611,917	1,545,603
Financial assets available-for-sale							
Debt securities available-for-sale	22	14,435,099	4,499,750	111,492	-	6,598,749	3,225,108
Amounts due from customers (gross)							
Amounts due from financial sector entities	25	1,040,446	689,652	70,000	240,794	40,000	-
Amounts due from non-financial sector entities	25	16,528,932	7,712,220	1,433,757	1,533,266	4,498,125	1,351,564
Amounts due to banks	32	5,122,576	2,821,022	72,758	1,967,676	228,679	32,441
Amounts due to customers							
Amounts due to financial sector entities	34	3,115,435	3,068,882	42,988	2,912	639	14
Amounts due to non-financial sector entities	34	26,517,163	25,756,115	445,186	303,973	11,826	63

As at 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							

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
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

38. 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 Citibank (Poland) 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 at 31 December 2014, 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 2013.

The Bank has not issued preferred shares.

Both in 2014 and 2013 there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2014 and 31 December 2013, 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 2014 and during the period from the publication of the previous interim quarterly report for Q3 2014 until the day of the publication of this annual report for 2014, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2014, supplementary capital was PLN 3,000,298 thousand (31 December 2013: PLN 2,997,759 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 the amount PLN 15,165 thousand (see Note 1).

Revaluation reserve

PLN'000	**31.12.2014**	**31.12.2013**
Revaluation of financial assets available-for-sale	**52,873**	**(42,963)**

The revaluation reserve is not distributed. As at 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

PLN'000	**31.12.2014**	**31.12.2013**
Reserve capital	2,374,496	2,335,307
General risk reserve	521,000	521,000
Net actuarial losses on specific services program valuation	(5,898)	-
Foreign currency translation adjustment	3,925	3,081
Other reserves, total	**2,893,523**	**2,859,388**

On 24 June 2014 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2013, deciding to appropriate the amount of PLN 566 thousand for reserve capital.

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 2013

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 2013 on June 24, 2014. The Meeting resolved to appropriate the amount of PLN 934,216,160.00 for the dividend payment. The dividend has a cash character. The dividend per one ordinary share is PLN 7.15. 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 July 7, 2014 (day of dividend) and the day of the dividend payment for August 29, 2014 (day of the dividend payment).

Declared dividends

On 10 March 2015, the Bank's Management Board adopted a resolution on the proposed distribution of profit for 2014. The Bank's Management Board has proposed to allocate the amount of PLN 970,800,828.00 for dividend payment. The dividend has a cash character. This means that the dividend per share amounts to PLN 7.43. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 6 July 2015 and the dividend payment date was designated as 24 July 2015. 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.

39. Repurchase and reverse repurchase agreements

Repurchase agreements

The Group raises liquid assets 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 at 31 December 2014, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities available-for-sale	1,724,270	1,726,049	Up to 1 week	1,726,140

**including interest*

As at 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*

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

As at 31 December 2014 and as at 31 December 2013, assets sold through repo cannot be further traded.

In 2014, the total interest expense on repurchase agreements was PLN 14,086 thousand (in 2013: PLN 33,798 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 at 31 December 2014, 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	504,195	504,367	Up to 1 month	504,260
	177,446	182,760	Up to 3 years	178,886
Amounts due from customers:				
from financial sector entities	599,899	599,610	Up to 1 month	600,048

**including interest*

As at 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 at 31 December 2014 and 31 December 2013, the Group held the option to pledge or sell assets acquired through reverse repo.

In 2014, the total interest income on reverse repurchase agreements was PLN 42,230 thousand (in 2013: PLN 39,596 thousand).

As at 31 December 2014 the liabilities due to short sale of securities purchased in reverse repo transactions amounted PLN 1,005,545 thousand (as at 31 December 2013: PLN 481,601 thousand).

40. 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 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.

PLN'000	31.12.2014		31.12.2013	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	5,476,854	5,597,147	3,296,014	3,581,696
Value of collateral received/placed	(180,008)	(359,622)	(15,100)	(392,185)
Assets and liabilities subject to offsetting under the master agreement	**5,296,846**	**5,237,525**	**3,280,914**	**3,189,511**

PLN'000	31.12.2014		31.12.2013	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Maximum amount of potential offset	(5,225,136)	(5,225,136)	(3,180,488)	(3,180,488)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**71,710**	**12,389**	**100,426**	**9,023**

41. 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 the 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 the 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 the 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.

As at 31 of December 2014 there were no instruments connected by hedging relation.

Fair value of instruments within fair value hedge accounting of securities

PLN'000	31.12.2014		31.12.2013	
	Nominal value	Fair value	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)

42. 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 a statement of financial position (by category) and fair value information for each category of financial assets and liabilities.

As at 31 December 2014

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	-	1,522,949	-	-	1,522,949	1,522,949
Amounts due from banks	20	-	2,065,685	-	-	2,065,685	2,070,670
Financial assets held-for-trading	21	12,721,573	-	-	-	12,721,573	12,721,573
Debt securities available-for-sale	22	-	-	14,435,099	-	14,435,099	14,435,099
Equity investments valued at equity method	23	-	-	-	7,765	7,765	7,765
Equity investments available-for-sale	24	-	-	8,211	-	8,211	8,211
Amounts due from customers	25	-	16,770,482		-	16,770,482	16,770,482
		12,721,573	**20,359,116**	**14,443,310**	**7,765**	**47,531,764**	**47,536,749**
Financial liabilities							
Amounts due to banks	32	-	-	-	5,122,576	5,122,576	5,120,810
Financial liabilities held-for-trading	21	6,770,922	-	-	-	6,770,922	6,769,403
Amounts due to customers	34	-	-	-	29,632,598	29,632,598	29,632,598
		6,770,922	**-**	**-**	**34,755,174**	**41,526,096**	**41,522,811**

As at 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	**-**	**-**	**32,947,201**	**37,168,807**	**37,170,007**

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 includes 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 the 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.

In 2014, 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 at 31 December 2014

PLN'000	Note	Level I	Level II	Total
Financial assets				
Financial assets held-for-trading	21	6,944,544	5,777,029	12,721,573
derivatives		-	5,624,460	5,624,460
debt securities		6,944,306	152,569	7,096,875
equity instruments		238	-	238
Debt securities available-for-sale	22	8,753,310	5,681,789	14,435,099
Financial liabilities				
Financial liabilities held-for-trading	21	1,005,737	5,765,185	6,770,922
short sale of securities		1,005,545	-	1,005,545
derivatives		192	5,765,185	5,765,377

In 2014 the Group did not make any transfers between levels of financial instruments fair value according to the used method of establishing fair value.

As at 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 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 derivatives and results from change of the market-based valuation model. The value of transferred assets was PLN 1,523 thousand.

Additionally, in 2013, taking into account the market activity, a transfer of the part of debt securities classified to financial assets held-for-trading was made in the amount of PLN 246,880 thousand and the part of debt securities available-for-sale in the amount of 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).

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 the fair value of such instruments.

Other equity investments: In the 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 2014, from capital investments, of which the fair value could not be measured, the Group sold shares in:

- Shares in Kuźnia Polska S.A. representing 5.20% of the shares in the capital and 5.20% of votes at the General Meeting. The balance value of sold shares amounted to PLN 1,536 thousand;
- Shares in Polski Koncern Mięsny DUDA S.A. representing 4.52% of the share in the capital and 4.52% of votes at the General Meeting.The balance value of sold shares amounted to PLN 5,649 thousand.

In 2013, from capital investments, of which the fair value could not be measured, the Group 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. The balance sheet value of sold shares in Elektromontaż Poznać S.A amounted to PLN 4,715 thousand
- 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. The balance sheet value of sold shares in Handlowy Investmens II S.a.r.l. amounted to PLN 5,532 thousand.

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 used to determine the fair value of assets and liabilities to banks and customers, recognized in the consolidated statement of financial position at amortized cost, the use of 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 generally approximates the carrying value

43. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2014, 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 in 2014.

The total value of liabilities of Bank and its subsidiaries on all pending legal proceedings did not exceed 10% of the Bank's equity in 2014.

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 at 31 December 2014, the Bank was among others a party to 27 court proceedings regarding derivative transactions: in 18 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 at the date of preparation of the financial statements, 10 legally valid court decisions were issued - 8 in favor of the Bank and 2 unfavorable – in 8 cases the Bank has made a deal.

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 2014 there were no significant payments following the court cases.

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	**31.12.2014**	**31.12.2013**
Financial and guarantees liabilities granted		
Letters of credit	208,126	137,569
Guarantees granted	1,779,425	1,775,108
Credit lines granted	13,161,336	12,199,651
Underwriting other issuers' securities issues	1,264,450	1,508,050
Other guarantees	33,583	38,240
Reverse repurchase transactions with future currency date	189,650	242,521
	16,636,570	**15,901,139**

PLN'000	**31.12.2014**	**31.12.2013**
Letters of credit by category		
Import letters of credit issued	207,208	135,060
Export letters of credit confirmed	918	2,509
	208,126	**137,569**

The Group makes provisions for financial and guarantees commitments granted. As at 31 December 2014, the provisions created for financial and guarantees commitments granted amounted to PLN 13,238 thousand (31 December 2013: PLN 13,150 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	31.12.2014	31.12.2013
Financial and guarantees liabilities received		
Finance	708,148	1,247,960
Guarantees	6,199,449	4,970,167
	6,907,597	**6,218,127**

44. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2014	31.12.2013
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	1,726,049	1,783,602
credit received	208,341	124,416
Amounts due to customers		
securities sale and repurchase agreements	-	352,153
	1,934,390	**2,260,171**

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

PLN'000	31.12.2014	31.12.2013
Assets pledged		
Debt securities held-for-trading	-	27,099
Debt securities available-for-sale	2,194,933	2,424,272
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	381,971	394,188
Amounts due from customers		
Stock market trading guarantee funds and settlements	98,011	136,349
Other assets		
Settlement of transactions in financial instruments	-	7,751
	2,674,915	**2,989,659**

As at 31 December 2014, 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 176,088 thousand (31 December 2013: PLN 170,566 thousand) collateral against credit received: PLN 294,575 thousand (31 Decemeber 2013:PLN 146,730 thousand) and the collateral against securities sold with repurchase agreement in the amount PLN 1,724,270 thousand (31 December 2013: PLN 2,106,976 thousand).

Debt securities held-for-trading as at 31 December 2013 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 39.

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.

45. 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 at 31 December 2014, the Bank maintained over 10 thousand securities accounts (31 December 2013: over 13 thousand accounts).

46. Operating leases

Leases where the Group is the lessee

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

PLN'000	**31.12.2014**	**31.12.2013**
Less than 1 year	34,411	30,821
Between 1 and 5 years	80,799	60,343
More than 5 years	2,876	-
	118,086	**91,164**
Total annual rentals for contracts for an unspecified period of time	**2,884**	**3,230**

The Group uses office space and cars 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 2014 amounted to PLN 36,129 thousand (in 2013: PLN 40,625 thousand).

The leases are made for 4 years. Leasing payments are established with a fixed interest rate throughout the during all lease period. In 2014, the total amount of leasing fees amounted to PLN 1,169 thousand. In 2013 the Group did not lease cars.

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	**31.12.2014**	**31.12.2013**
Less than 1 year	2,223	1,807
Between 1 and 5 years	2,416	3,137
More than 5 years	-	-
	4,639	**4,944**
Total annual rentals for contracts for an unspecified period of time	**8,712**	**8,226**

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 2014 to PLN 7,593 thousand (in 2013: PLN 7,993 thousand).

These payments are presented in the income statement in “Other operating income.”

47. Cash flow statement

Additional information:

PLN'000	31.12.2014	31.12.2013
Cash related items:		
Cash in hand	495,408	532,142
Nostro current account in Central Bank	1,027,541	246,322
Current accounts in other banks (nostro, overdrafts on loro accounts)	209,966	341,698
	1,732,915	**1,120,162**

48. 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, the 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	31.12.2014	31.12.2013
Receivables, including:	277,201	805,086
Placements	104,914	138,509
Liabilities, including:	2,695,589	4,128,851
Deposits	2,081,553	3,328,060
Loans received	118,285	205,368
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	4,632,733	2,699,322
Liabilities held-for-trading	4,514,920	2,908,933
Contingent liabilities granted	235,286	163,971
Contingent liabilities received	869,933	1,418,444
Contingent transactions in derivative instruments (commitments granted/received), including:	235,984,565	182,584,553
Interest rate instruments	214,744,922	165,280,456
FRA	33,970,000	19,680,000
Interest rate swaps (IRS)	155,007,205	122,893,780
Currency – interest rate swaps (CIRS)	25,394,856	21,735,386
Interest rate options	304,832	478,498
Futures contracts	68,029	492,792
Currency instruments	20,708,532	16,744,149
FX forward/spot	879,675	1,635,593
FX swap	17,254,092	12,498,863
Foreign exchange options	2,574,765	2,609,693
Securities transactions	288,079	72,059
Securities purchased pending delivery	89,933	56,368

PLN'000	31.12.2014	31.12.2013
Securities sold pending delivery	198,146	15,691
Commodity transactions	243,032	487,889
Swaps	209,697	546
Options	33,335	487,343

PLN'000	2014	2013
Interest and commission income	51,562	53,573
Interest and commission expense	10,923	11,880

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 at 31 December 2014 amounted to PLN 117,813 thousand (as at 31 December 2013: PLN (209,611) 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 2014 and 2013 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; 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	2014	2013
General administrative expenses	173,003	169,354
Other operating income	8,000	11,423

In 2013 the capitalization of investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted PLN 47,811 thousand (see note 27).

49. Transactions with the key management personnel

PLN'000	31.12.2014		31.12.2013	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**2,771**	**-**	**584**	**-**
Deposits				
Current accounts	3,344	6,143	6,827	28,701
Term deposits	2,632	123	3,000	271
	5,976	**6,266**	**9,827**	**28,972**

As at 31 December 2014 and 31 December 2013, 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.

From the scope of work relationship, among contracts of employment between Bank and Members of Management Board, only in the case of one Member of Management Board doesthe contract include 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 compensation to the member of the Management Board.

50. 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 and managed by Legg Mason TFI S.A.

  The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts to 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, position 416 with amendments.).

  Payments from the Plan are paid after the participant's or entitled person's motion in course and under conditions explicitly specified in the program.

  The Plan participant may quit the Plan. 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 awards. Information about jubilee awards is described in Note 2. 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. From 1 January 2015 employers with long-term work-experience (10, 20, 30 etc.) are entitled to rewards in kind.

- 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	**31.12.2014**	**31.12.2013**
Provision for remuneration	70,941	73,168
Previsions for unused leave	20,693	18,526
Provision for employees' retirement and pension benefits	40,677	31,465
Provisions for employees' jubilee payments	268	3,533
Provision for employees' equity compensation	32,249	35,010
Provision for workforce restructuring	158	53,787
	164,986	**215,489**

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

PLN'000	**2014**		**2013**	
	Provision for retirement allowances	**Provision for jubilee payments**	**Provision for retirement allowances**	**Provision for jubilee payments**
As at 1 January	**31,465**	**3,533**	**29,770**	**7,143**
Increases (due to):	10,758	1,717	2,826	-
Actuarial profit/loss on revaluation	7,281	-	-	-
Including these resulting from:				
Change of economic assumptions	3,912	-	-	-
Change of demographic assumptions	3,369	-	-	-
Remuneration cost	1,706	1,649	1,135	-
Interest cost	1,422	-	1,600	-
Past employment cost	122	-	-	-
Provision write-offs	24	-	91	-
Other increases	203	68	-	-
Decreases (due to):	(1,546)	(4,982)	(1,131)	(3,610)
Past employment cost	(1,175)	-	-	-
Provisions utilisation	(275)	(4,100)	(1,074)	(3,564)
Reversal of provisions	(96)	(882)	(57)	(46)
As at 31 December	**40,677**	**268**	**31,465**	**3,533**

Analysis of sensivity for significant actuarial assumptions

PLN'000	**2014** Provision for retirement and pension allowances
Central value	40,677
Decrease of remuneration growth rate to 0.5%	35,122
Increase of remuneration growth rate to 2.5%	47,452
Rotation decrease by 10%	42,648
Rotation increase by 10%	38,900
Decrease of discount rate by 0.5%, including:	43,885
Falling to benefits paid withing 1 year	4,030
Increase of discount rate by 0.5%, including:	37,806
Falling to benefits paid withing 1 year	4,029

More information about specific services programs and their estimation can be found in note 2

In 2014, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 22,218 thousand (in 2013: PLN 22,392 thousand).

Employment in the Group:

FTEs	2014	2013
Average employment in the year	4,355	4,833
Employment at the end of the year	4,170	4,665

In the fourth quarter of 2013, a restructuring process was started 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 fully used: in 2014 in the amount of PLN 48,771 thousand and in 2013 PLN 1,893 thousand and the rest was reversed in the amount of PLN 4,496 thousand (see note 12, 35).

The workforce restructuring process in 2013 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 2013, and in 2014 in the amount of PLN 158 thousand, that was used as at 31 December 2014 in the amount of PLN 2,560 thousand, including PLN 2,040 thousand in 2013 and PLN 520 thousand in 2014 (see note: 12, 35)

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 at the 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 at 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.

The 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 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 January 2013 20 January 2014 20 January 2015
Number of Phantom Shares granted	The number of shares was set on the 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 and in 2015, 2016, 2017 in relation to 2015 reward.
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 the 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 January 2013 20 January 2014 20 January 2015
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 the 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 and in 2015, 2016, 2017 in relation to 2015 reward.
Program settlement	At the settlement date the participants will get an amount of Deferred Cash tranche with interest counted 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 the 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 is shown below:

SOP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	29.10.2009	40.8	790	73,465

CAP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	18.01.2011	50.20	25	15,315
2	17.01.2012	30.54	22	24,446
3	19.02.2013	43.93	11	5,954
4	18.02.2014	49.66	9	7,943

Phantom Shares Program	Grant Date	Exercise price / stock price at grant date [PLN]	Number of eligible employees	Number of options / shares
1	21.01.2013	96.03	27	69,535
2	20.01.2014	104.86	24	63,341

	SOP Program	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	33.33% 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 and13.33% 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	20.56%	-	-
Risk free interest rate (for USD)	0.96%	-	-
Expected dividends (in USD per one share)	0.04	-	-
Fair value of one instrument* (in USD)	0.00 – 13.16 (USD)	53.96 (USD)	107.55 (PLN)

**Varies depending on the date of exercise*

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

	31.12.2014		31.12.2013	
	Number	Weighted average strike price [USD]	Number	Weighted average strike price [USD]
At the beginning of the period	93,699	45.36	116,564	44.65
Allocated in the period	-	-	-	-
Transfers	-	-	-	-
Redeemed in the period	18,138	52.66	20,753	48.10
Expired in the period	2,096	-	2,112	-
At the end of the period	73,465	40.80	93,699	45.36
Exercisable at the end of the period	73,465	40.80	93,699	45.36

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

	31.12.2014		31.12.2013	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	82,120	39.21	124,649	39.49
Allocated in the period	7,943	49.66	5,114	43.93
Transfers	4,336	40.20	-	-
Redeemed/expired in the period	40,741	-	47,643	-
At the end of the period	53,658	33.11	82,120	39.21

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

	31.12.2014		31.12.2013	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	104,302	96.03	-	-
Allocated in the period	122,566	104.86	186,196	96,03
Executed in the period	93,992	109.10	81,894	96,08
Redeemed / expired In the period	-	-	-	-
At the end of the period	132,876	100.24	104,302	96,03

51. Subsequent events

After 31 December 2014, there were no major events, not included in the financial statement, that could have a significant influence on the net result of the Group.

52. Risk management

RISK MANAGEMENT ORGANIZATION STRUCTURE AND PROCESS

The Group's activities involve analysis, assessment, approval and management of all kinds 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;
- Bank's Risk's Profile by determining significant types of risk, at the same time providing implementation of processes to manage them and/or allocation of interior equity
- Strategy of risk management, determining rules of careful and stable risk management
- General acceptable Bank risk level ("risk appetite"), within the scope of summarizing the process of estimating and allocating interior equity for given year document.

The Management Board of the 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 of equity process and model risk,
- supporting risk management in the above areas including in control functions,
- the process the 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 the 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, generaly accepted risk level, 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;
- Credit competence are granted to trained and experienced workers from risk management units on the basis of their work experience to date and their risk estimating skill ability.
- 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 a consistent risk ratings methodology across the corporate and commercial credit portfolio, which facilitates a 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 a facility level, which may include one or more contracts, disposals or transactions;
- At an obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed;
- At a group level, considering the group structure of multiple obligors with common ownership and/or organization;
- At a portfolio level where the 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 dependent on market factors determining the values for particular transactions in the customer portfolio. In the case of a 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 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 management information reports analysis, 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 Bank's credit risk management processes. It is achieved as described below:

- Customers selection and credit confirmation
  - Target market and customer selection criteria are determined;
  - Maximum credit exposure against the 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;
  - Establishing acceptable collaterals and their classification in view of regaining possibility in case of execution
  - Setting collaterals in right law's form (documentation standards).
  - 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;

- Monitoring and early warning system
  - Credit exposures monitoring and early warning system are used;
  - Regular inspection of portfolio ensuring identification of adverse tendencies and concentration
  - 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 and frequency of collateral value monitoring and updating (including inspections).

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

- the structure of collateral required for different types of credit receivables;
- the relationship of loan value to collateral value for each type of collateral;
- the 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 at 31 December 2014, 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 56,317 thousand (31 December 2013: PLN 124,717 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;
- 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.
In hedge concentration, in accordance with S Recommendation, are settled and controlled appropriate limits of commitments hedged with mortgage.
In addition to current concentration levels monitoring in accordance to set limits; the Bank monitors also potential geographical concentration and concentration resulting from indirect commitments – however in accordance with the Bank's portfolio profile there were no limits set for this type of concentration.

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 at 31 December 2014, 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 5,733,506 thousand, i.e., 116.0% of equity (31 December 2013: PLN 5,928,283 thousand, i.e., 127.6%). In 2014 and 2013 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:

	31.12.2014			31.12.2013		
PLN'000	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 1	85,160	916,365	1,001,525	360,239	139,846	500,085
CLIENT 2	575,100	341,450	916,550	716,500	200,050	916,550
GROUP 3	660,806	107,837	768,643	412,479	169,411	581,890
GROUP 4	2	756,906	756,908	43,427	966,055	1,009,482
GROUP 5	184,949	442,417	627,366	157,436	575,257	732,693
GROUP 6	467,864	144,599	612,463	420,819	218,212	639,031

PLN'000	31.12.2014			31.12.2013		
	Balance sheet exposure*	**Granted financial and guarantee liabilities**	**Total exposure**	**Balance sheet exposure***	**Granted financial and guarantee liabilities**	**Total exposure**
CLIENT 7	550,000	-	550,000	250,000	300,000	550,000
CLIENT 8	-	500,051	500,051	-	500,051	500,051
CLIENT 9	463,200	-	463,200	-	-	-
GROUP 10	220,486	176,527	397,013	323,687	174,815	498,502
Total 10	**3,207,567**	**3,386,152**	**6,593,719**	**2,684,587**	**3,243,697**	**5,928,284**

**Excluding investment in shares and other securities*

The limits of Bank's maximal exposure are determined in the Banking Law Bill from 29 August 1997 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 (Regulation No 575/2013). When keeping conditions determined in Regulation 575/2013 it is allowed for the Bank to maintain overdraft of liabilities level over limits determined in paragraph 71 of the Banking Law Bill only in the case of liabilities resulting from operations rated in the trade portfolio. Own funds for determining limits of exposure purposes were determined according to Regulation No 575/2013.

As at 31 December 2014, the Group had an exposure to two entities exceeding the statutory exposure concentration limits. The excess exposure resulted from trade portfolio transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's total capital requirement as at 31 December 2014.

*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)*	**31.12.2014**		**31.12.2013**	
	PLN'000	**%**	**PLN'000**	**%**
Wholesale trade, excluding trade in vehicles	3,806,391	16.8%	4,026,214	18.7%
Financial intermediation, excluding insurance and pension funds	2,198,632	9.7%	2,182,495	10.1%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,191,652	9.7%	2,537,891	11.8%
Retail trade, excluding retail trade in vehicles	1,561,013	6.9%	1,297,340	6.0%
Production of food and beverages	1,376,794	6.1%	1,242,203	5.8%
Metal ore mining	1,001,440	4.4%	500,000	2.3%
Production and processing of coke and petroleum products	831,430	3.7%	903,130	4.2%
Wholesale and retail trade in motor vehicles, repair of motor vehicles	627,480	2.8%	551,562	2.6%
Public administration and national defense, obligatory social security	624,132	2.7%	674,291	3.1%
Manufacture of rubber and plastic	614,839	2.7%	407,024	1.9%
Top 10 business sectors	**14,833,803**	**65.3%**	**14,322,150**	**66.5%**
Warehousing and supporting transport services	611,550	2.7%	165,351	0.8%
Production of metal goods, excluding machines and equipment	565,328	2.5%	446,220	2.1%
Gross and retail cars trade, fixing cars	519,932	2.3%	672,524	3.1%
Construction of buildings	491,077	2.2%	460,380	2.1%
Production from other non-metallic minerals	440,597	1.9%	361,581	1.7%
Manufacture of chemicals and chemical products	416,413	1.8%	321,366	1.5%
Manufacture of electric appliances	393,911	1.7%	371,546	1.7%
Manufacture of machinery and equipment, not elsewhere classified	348,669	1.5%	364,493	1.7%

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2014 PLN'000	%	31.12.2013 PLN'000	%
Production of basic pharmaceutical substances, medicines and other pharmaceutical products	340,538	1.5%	430,077	2.0%
Manufacture of furniture	330,924	1.5%	336,509	1.6%
Top 20 business sectors	**19,292,742**	**84.9%**	**18,252,197**	**84.8%**
Other sectors	**3,418,368**	**15.1%**	**3,265,687**	**15.2%**
Total	**22,711,110**	**100.0%**	**21,517,884**	**100.0%**

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

Gross amounts due from customers and banks by type of business

PLN'000		31.12.2014	31.12.2013
Gross amounts due from economic entities and banks			
Financial		3,379,035	3,706,320
Production		4,288,366	3,745,767
Services		930,776	621,351
Other		4,759,600	5,863,934
		13,357,777	**13,937,372**
Gross amounts due from individual customers		**6,280,166**	**5,819,088**
	(see Note 20, 25)	**19,637,943**	**19,756,460**

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 a 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 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 investment level of external credit rating agencies, what implies that they indicate a 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 the 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 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 of 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	31.12.2014	31.12.2013
Gross receivables due from banks	20	2,068,565	3,541,100
Gross receivables due from corporate customers	25	11,289,212	10,396,272
Gross receivables due from individual customers	25	6,280,166	5,819,088
Debt securities held-for-trading	21	7,096,875	2,215,673
Derivative instruments	21	5,624,460	3,531,126
Debt securities available-for-sale	22	14,435,099	17,616,041
Other financial assets	30	327,676	295,782
Contingent liabilities granted	43	16,636,570	15,901,139
		63,758,623	**59,316,221**

Commitment due to customers in terms of credit risk

PLN'000	31.12.2014			31.12.2013		
	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	**399,482**	**10,822**	**-**	**508,212**	**8,400**	**-**
Impairment write-off	336,205	3,696	-	371,075	3,084	-
Net amount	**63,277**	**7,126**	**-**	**137,137**	**5,316**	**-**
Portfolio receivables						
Gross amount	**57,087**	**471,158**	**-**	**75,957**	**636,745**	**-**
Impairment write-off	45,383	342,305	-	50,802	471,977	-
Net amount	**11,704**	**128,853**	**-**	**25,155**	**164,768**	**-**
Not impaired receivables						
by risk rating						
Risk rating 1-4-	7,696,261	-	1,877,441	5,802,138	-	3,272,899
Risk rating +5-6-	2,902,248	-	191,124	3,806,562	-	267,476
Risk rating +7 and greater	234,134	-	-	203,403	-	725
by delinquency						
no delinquency	-	5,546,235	-	-	4,898,946	-
1–30 days	-	198,755	-	-	212,290	-
31–90 days	-	53,196	-	-	62,707	-

PLN'000	31.12.2014			31.12.2013		
	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
Gross amount	**10,832,643**	**5,798,186**	**2,068,565**	**9,812,103**	**5,173,943**	**3,541,100**
Impairment	21,990	49,317	2,880	26,348	60,747	1,173
Net amount	**10,810,653**	**5,748,869**	**2,065,685**	**9,785,755**	**5,113,196**	**3,539,927**
Total net amount	**10,885,634**	**5,884,848**	**2,065,685**	**9,948,047**	**5,283,280**	**3,539,927**

PLN'000	31.12.2014			31.12.2013		
	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	**336,205**	**3,696**	**-**	**371,075**	**3,084**	-
Impairment write-offs for portfolio receivables	**45,383**	**342,305**	**-**	**50,802**	**471,977**	-
IBNR provisions						
by risk rating						
Risk rating 1-4-	2,274	-	347	1,457	-	303
Risk rating +5-6	10,692	-	2,533	17,191	-	859
Risk rating +7 and greater	9,024	-	-	7,700	-	11
by delinquency						
no delinquency	-	18,545	-	-	22,628	-
1–30 days	-	12,245	-	-	14,764	-
31–90 days	-	18,527	-	-	23,355	-
	21,990	**49,317**	**2,880**	**26,348**	**60,747**	**1,173**
Total impairment write-offs	**403,578**	**395,318**	**2,880**	**448,225**	**535,808**	**1,173**

In the 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 5,546,235 thousand in the end of 2014 (in 2013: PLN 4,898,946 thousand), the amount of PLN 288,910 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 6,694 thousand is related to receivables which at least once have exceeded 90 days of delay in payment (respectively PLN 243,256 thousand and PLN 7,726 thousand in 2013).

Receivables not impaired by delinquency:

PLN'000	31.12.2014			31.12.2013		
	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	10,782,601	5,546,235	2,068,565	9,715,024	4,898,946	3,541,100
Overdue receivables, including:	50,042	251,951	-	97,079	274,997	-
1-30 days	45,468	198,755	-	88,681	212,290	-
Gross amount	**10,832,643**	**5,798,186**	**2,068,565**	**9,812,103**	**5,173,943**	**3,541,100**

Structure of derivatives in terms of credit risk

PLN'000	31.12.2014			31.12.2013		
	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-	108,828	2,287	5,462,464	186,040	-	3,313,078
Risk rating+5-6-	25,521	-	22,906	13,474	-	16,600
Risk rating +7and greater	2,451	-	3	1,920	-	13
Amount	**136,800**	**2,287**	**5,485,373**	**201,434**	**-**	**3,329,691**

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 7,096,875 (PLN 2,215,673 thousand in the 2013) thousand includes debt securities with A issuer rating in the amount of PLN 5,651,492 thousand (PLN 1,938,149 thousand) and BBB- in the amount of PLN 1,310,546 thousand.(PLN 277,524 thousand in the 2013) BBB in the amount of PLN 14,799 thousand and without rating in the amount of PLN 120,038 thousand.

The portfolio of debt securities available-for-sale in the end of 2013 in the amount of PLN 14,435,099 thousand (in 2013: PLN 17,616,041 thousand) entirely includes debt securities with A issuer rating.

Other financial assets in the amount of PLN 327,676 thousand in the end of 2014 (PLN 295,782 thousand in the end of 2013) include receivables with delinquency over 90 days in the amount of PLN 1,278 thousand (PLN 6,346 thousand in the end of 2013).

Structure of granted contingent liabilities in terms of credit risk:

PLN'000	31.12.2014		31.12.2013	
	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-	8,875,154	360,793	7,792,063	411,916
Risk rating+5-6-	1,977,844	41,370	2,492,482	7,966
Risk rating +7and greater	110,261	-	191,985	-
Amount	**10,963,259**	**402,163**	**10,476,530**	**419,882**

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 5,271,148 thousand in the end of 2014 (in 2013: PLN 5,004,727 thousand), the amount of PLN 264,365 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 1,571 thousand is related to receivables which at least once have exceeded 90 days of delay in payment (respectively PLN 221,064 thousand and PLN 1,476 thousand in 2013).

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

PLN'000	31.12.2014	31.12.2013
Gross amount		
Receivables with recognized impairment, including:	938,549	1,229,314
Individual receivables	410,304	516,612
Portfolio receivables	528,245	712,702
Receivables without recognized impairment	18,699,394	18,527,146
Total gross amount	**19,637,943**	**19,756,460**

PLN'000	**31.12.2014**	**31.12.2013**
Impairment write-offs		
Receivables with recognized impairment, including:	727,589	896,938
Individual receivables	339,901	374,159
Portfolio receivables	387,688	522,779
Receivables without recognized impairment	74,187	88,268
Impairment write-offs in total	**801,776**	**985,206**
Net amount		
Receivables with recognized impairment, including:	210,960	332,376
Individual receivables	70,403	142,453
Portfolio receivables	140,557	189,923
Receivables without recognized impairment	18,625,207	18,438,878
Total net amount	**18,836,167**	**18,771,254**
Ratio of impairment write-offs to receivables with recognized impairment	**77.5%**	**73.0%**

"Forbearance" practices

Forborne exposures are identified in the Group within credit risk management. The Group takes into account "forborne" exposures according to the reporting requirements under the EBA Technical Standards (...) and document 2012/852 issued by the ESMA.

The Group considers exposures as "forborne" that are in the process of troubled debt restructuring. This is a situation when the debtor is experiencing financial difficulties and BHW grants preferential financing conditions to the debtor that it would not otherwise consider (i.e., off-market terms).

Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which the financing conditions are changed is determined individually for each debtor in question. In particular, these activities include:

- receipt of assets;
- granting a new or restructured facility in partial or full satisfaction of a facility;
- modification of the terms of the existing facility, including rescheduling of future payments (e.g. extension of financing tenor), change of interest rate or methods of repayment, reduction of amount to be repaid (principal or accrued interest).

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures. According to the implemented process of impairment recognition, exposure status change to "forborne" constitutes an evidence of impairment and such exposure is in the portfolio of impaired loans.

The Group assumes that expoususes will remain in"forborne" status until they are entirely paid off.

The "forborne" exposures are serviced by a specialized unit where the documented processes to ensure the correct identification ("forborne" exposures are indicated in the Bank accounting system), accounting, valuation, reporting and monitoring of these exposures are in place. Exposure values in "forborne" status as of end of 2014 are insignificant, that is why Group monitors them at a total level, without further portfolio splits.

PLN'000	Wg stanu na dzień	
	31.12.2014	**31.12.2013**
Receivables without recognized impairment, including	16,630,827	14,986,047
non-financial sector entities	15,609,377	14,270,449
Corporate customers	9,811,190	9,096,506
Individual customers	5,798,187	5,173,943
Receivables with recognized impairment, including:	938,551	1,229,313
non-financial sector entities	919,555	1,210,317
Corporate customers, including:	437,575	565,173
"forborne"	63,529	95,882
Individual customers, including:	481,980	645,144
"forborne"	61,722	109,833
Total gross amount, including:	**17,569,378**	**16,215,360**
non-financial sector entities	16,528,932	15,480,766
Corporate customers, including:	10,248,765	9,661,679
"forborne"	63,529	95,882
Individual customers, including:	6,280,167	5,819,087
"forborne"	61,722	109,833
Impairment write-off	**(798,896)**	**(984,033)**
On "forborne" receivables	(76,273)	(124,952)
Total net amounts due from customers, including:	**16,770,482**	**15,231,327**
"forborne" receivables	48,978	80,763

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 analysis of liquidity gaps, the ability to acquire in the future sufficient funding sources as well as funding costs in light of 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 facilitaties.

Liquidity management with accordance to "Risk management principals" in the 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 at 31 December 2014 and 31 December 2013 are shown in the tables below.

The cumulative liquidity gap as at 31 December 2014 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	1,866,988	-	-	-	47,976,677
Liabilities and equity	8,447,582	137,026	1,853,836	177,219	39,228,002
Balance sheet gap in the period	(6,580,594)	(137,026)	(1,853,836)	(177,219)	8,748,675
Conditional derivative transactions – inflows	15,659,087	3,803,944	11,738,178	9,589,527	11,602,589
Conditional derivative transactions – outflows	16,115,268	3,987,651	11,488,710	9,730,060	11,421,057
Off-balance-sheet gap in the period	(456,181)	(183,707)	249,468	(140,533)	181,532
Cumulative gap	(7,036,775)	(7,357,508)	(8,961,876)	(9,279,628)	(349,421)

The cumulative liquidity gap as at 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 and equity	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)

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
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)

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

PLN'000	31.12.2014	31.12.2013	Change
Liquid assets, including:	22,752,411	20,243,696	2,508,715
nostro account in NBP and stable part of cash	1,220,437	411,982	808,455
debt securities held-for-trading	7,096,875	2,215,673	4,881,202
debt securities available-for-sale	14,435,099	17,616,041	(3,180,942)
Cumulative liquidity gap up to 1 year	(8,961,876)	823,360	(9,785,236)
Coverage of the gap with liquid assets	254%	Positive gap	

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

As at 31 December 2014

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	5,122,583	2,821,029	72,758	1,967,676	228,679	32,441
Financial liabilities held-for-trading							
Short positions in financial assets	21	1,005,545	1,005,545	-	-	-	-
Amounts due to customers, including:	34	**29,632,599**	**28,824,998**	**488,174**	**306,885**	**12,465**	**77**
Deposits from financial sector entities	34	3,115,436	3,068,883	42,988	2,912	639	14
Deposits from non-financial sector entities	34	26,384,512	25,673,498	429,838	269,667	11,446	63
Other liabilities	34	132,651	82,617	15,348	34,306	380	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	21	5,021,507	60,576	105,369	451,135	2,929,929	1,474,498
Unused credit lines liabilities	43	13,161,336	11,757,667	76,320	141,646	974,907	210,796
Guarantee lines	43	1,813,008	1,813,008	-	-	-	-
		55,756,578	**46,282,823**	**742,621**	**2,867,342**	**4,145,980**	**1,717,812**
Derivatives settled on a gross basis							
Inflows		51,920,356	16,351,513	3,801,719	11,574,861	15,281,939	4,910,324
Outflows		52,075,612	16,415,101	3,848,204	11,598,305	15,287,830	4,926,172
		(155,256)	**(63,588)**	**(46,485)**	**(23,444)**	**(5,891)**	**(15,848)**

As at 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

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
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	43	12,199,651	11,251,798	4,513	173,861	682,404	87,075
Guarantee lines	43	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)**

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 as all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of risk accepted within the Group 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 as 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 and optional structures being a reflection of the economic nature and risk resulting from products offered to customers of the Bank. In this area, the Bank 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 does not generate open exposition 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 market/base 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 to estimate the 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 at 31 December 2014 and 31 December 2013. 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	31.12.2014		31.12.2013	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	50,057	144,859	51,840	213,324
USD	2,180	(16,129)	5,610	7,076
EUR	19,461	(1,521)	16,515	(5,735)

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 concern 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 the holding portfolio of securities available for sale (AFS) with fixed interest rates. At the end of each month, when the hedging relation happened, 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 was 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 was 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 the 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	31.12.2014			31.12.2013			Total in the period 01.01.2014 – 31.12.2014		
	Total	Securities	IRS	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(2,434)	(2,434)	-	(911)	(1,799)	888	(1,907)	(875)	(2,775)
USD	(447)	(447)	-	(118)	(118)	-	(355)	(119)	(532)
EUR	(556)	(556)	-	(503)	(647)	144	(597)	(460)	(774)

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 2014 are presented in the table below:

PLN'000	**31.12.2014**	**31.12.2013**	**In the period 01.01.2014 – 31.12.2014**		
			Average	**Maximum**	**Minimum**
PLN	(27)	164	(12)	650	(477)
EUR	(250)	(76)	(182)	83	(565)
USD	(36)	65	(21)	134	(189)

Average exposures to the interest rate risk in the local currency in 2014 was higher comapring to the level from the previous year and amounted to PLN 172 thousand. Average exposures to the interest rate risk in EUR and USD were lower than in 2013 (e.g., DV01 in EUR amounted to PLN 186 thousand, compared to PLN 243 thousand in the previous year). Most of the biggest exposures accepted by the Treasury Division were lower than in the previous year. The maximum exposure in PLN was PLN 650 thousand compared to PLN 726 thousand in 2013 and the position in EUR amounted to PLN 565 thousand compared to PLN 784 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 2014:

PLN'000	**31.12.2014**	**31.12.2013**	**In the period 1.01.2014 – 31.12.2014**		
			Average	**Maximum**	**Minimum**
Currency risk	471	1,629	717	3,128	58
Interest rate risk	5,962	3,803	6,064	11,666	2,784
Spread risk	8,910	8,068	8,800	10,022	7,259
Total risk	10,763	9,181	10,910	15,513	8,336

The overall average level of the market risk of the trading portfolios was 25% lower in 2014 than the average level in 2013, representing an increase by over PLN 3,613 thousand, mainly as a result of higher exposures to basis spreads. The maximum price risk level was PLN 15,513 thousand, compared to PLN 22,221 thousand in 2013.

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:

31.12.2014

PLN'000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,949,647	6,057,309	8,849,494	6,632,396	109,436
USD	2,573,782	2,096,467	2,660,851	3,188,933	(50,767)
GBP	130,366	155,204	28,289	3 907	(456)
CHF	664,911	86,988	22,648	599,256	1,315
Other currencies	1,082,488	71,961	1,002,056	2,014,879	(2,296)
	8,401,194	**8,467,929**	**12,563,338**	**12,439,371**	**57,232**

31.12.2013

PLN'000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,964,022	6,553,434	6,979,618	4,292,134	98,072
USD	1,987,796	2,792,078	3,379,668	2,588,651	(13,265)
GBP	165,567	172,209	5,967	-	(675)
CHF	474,588	73,070	25,111	426,431	198
Other currencies	351,448	343,074	344,564	354,871	(1,933)
	6,943,421	**9,933,865**	**10,734,928**	**7,662,087**	**82,397**

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 of 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 a 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 the 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 a 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 regulations and the 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 of 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 the 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 the 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

The supervisory Board approves, presented by the Management Board, the 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 the 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 the Audit Committee and Risk and Capital Committee, assesses realization of strategy (including in view of principles of operational risk management) and, if necessary, orders its revision.

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

The management Board is responsible for preparation and implementation of a written operational risk management strategy and for the design of an 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, the Management Board approves:

- applied by the Bank definition of operational risk, characterizing in a clear and unambiguous way operational risk,
- ultimate operational risk profile, considering the scale and structure of operational risk exposure,
- appetite/tolerance for operational risk, including thresholds of total losses in particular the Events Category, within a specified timeframe, 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: the 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 the Operational Risk Management Strategy and Operational Risk Management Policy and Manager's Control Assessment Procedure, refer to all Group activities. The Management Board ensures organizational structure, processes and resources adequate to the conducted activities and allowing effective operational risk management.
The 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.
The 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 the Management Board, one of its members – Risk Management Sector Head - supervises the unit responsible for operational risk management.

The Management Board is supported by the 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).

The 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 an effective operational risk management process in the Bank's subsidiaries rests with the Management Boards. The Management Boards of those subsidiaries assure the adequacy of organizational structures and implementation of processes and procedures aligned with undertaken operational risk. The Supervisory Boards of subsidiaries maintain surveillance over the 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 the Bank's operational risk management unit. The effectiveness of operational risk management in the Bank's subsidiaries and the Bank is audited and assessed against consistent criteria.

Internal Control system in the scope of Operational Risk

The structure of the control system includes:

- Recognized ownership of risk by the businesses creating risk in Group,
- Oversight by an 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 the 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 the case of identification of a 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. The 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 cooperation 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 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

The 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 the subject of regular reports, submitted to relevant Committees.

The quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units of the Capital Group are subject to 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 the Management and Supervisory Board in the 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 the 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, the Bank maintains a limited level of tolerance for residual operational risk. The group's organizational units are obliged to identify and mitigate operational risk through effective control processes. In areas requiring specialized knowledge, the 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 the unit responsible for operational risk management on a quarterly basis. Results of the monitoring are reported to BRCC Commissions and committees supporting the Management Board and Supervisory Board.

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

Operational Risk Profile – the scale and structure of exposure to operational risk, defining the level of exposure to operational risk, expressed in structural measures (e.g. types of operational risk events, types of business lines, significant processes) and scale measures (e.g. assessed potential loss) selected by the Bank. The bank defines an 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.

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 7,410,760 thousand as at 31 December 2014 (as at 31 December 2013: PLN 7,307,264 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4,944,496 thousand (as at 31 December 2013: PLN 4,908,707 thousand) Such a 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	31.12.2014	31.12.2013
I	**Common Equity Tier 1 Capital**	**4,944,496**	**4,908,707**
II	**Total capital requirements, including:**	**2,256,724**	**2,246,769**
	credit risk capital requirements (II*8%)	1,581,701	1,535,628
	counterparty risk capital requirements	87,250	80,127
	Credit valuation correction capital requrements	54,648	-
	excess concentration and large exposures risks capital requirements	64,549	95,500
	total market risk capital requirements	108,215	156,778
	operational risk capital requirements	350,484	363,336
	other capital requirements	9,877	15,400
	Common Equity Tier 1 Capital ratio	**17.5%**	**17.5%**

**The capital Adequacy Ratio calculated according to the current rules at a given reporting moment, appropriately: on 31 December 2014 according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 on 31 December 2013 calculated according to the rules set out in Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 concerning the scope and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 2, item 11, as amended).*

In 2014, as well as in 2013, the Group complied with all the regulatory prudential standards on capital adequacy.

Signatures of Management Board Members

Date	Name	Position/function	Signature
13.03.2015 roku	Sławomir S. Sikora	President of the Management Board	
13.03.2015 roku	Brendan Carney	Vice-President of the Management Board	
13.03.2015 roku	Maciej Kropidłowski	Vice-President of the Management Board	
13.03.2015 roku	Barbara Sobala	Vice-President of the Management Board	
13.03.2015 roku	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
13.03.2015 roku	Iwona Dudzińska	Member of the Management Board	
13.03.2015 roku	Czesław Piasek	Member of the Management Board	

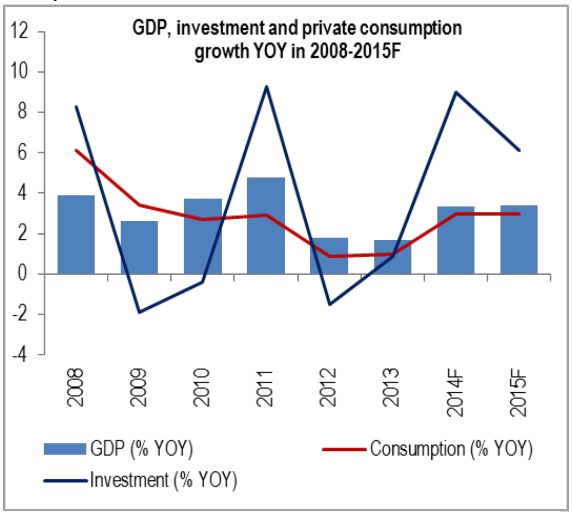
Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2014

Contents

I. Poland's economy in 2014

1. Main macroeconomic trends

Gross Domestic Product grew by 3.3% YoY in 2014 (3.4% on average in the first three quarters) compared to 1.7% YoY in the entire 2013. The economic growth rate was relatively stable and after the Q2 top of 3.5% YoY, GDP growth slowed slightly in Q3 to 3.3% YoY. Economic growth was driven mainly by domestic demand, while the contribution of net export was negative since Q2. GDP growth reached the highest level at 3.5% YoY in Q2. Monthly economic data suggested a further slowdown in GDP growth, however the level of the GDP growth was still above 3%.



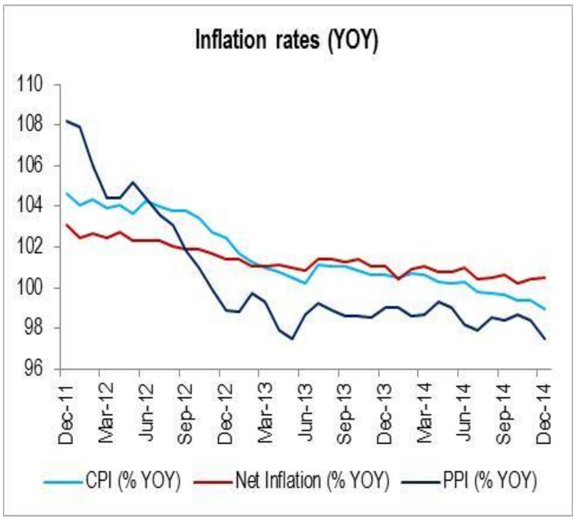
Source: Chief Statistical Office, own calculations

Industrial production growth accelerated in 2014 to 3.4% YoY from 2.4% YoY in 2013, which was driven by slightly faster growth in production in the first half of the year and a slowdown in the second half of the year. The weakening of output was affected by deterioration in export orders in connection with weaker data on economic activity and weaker demand from trading partners in the eurozone and from Russia and Ukraine. The increase in exports in 2014 was 5.9% YoY compared to 5.7% YoY throughout 2013, while the recovery in domestic demand led to an acceleration of import growth to 6.4% YoY in 2014 from 0.2% YoY in 2013. As a result, there was a slight deterioration in the trade balance, but it still remained at a positive level. At the same time, the decline in the trade surplus was partially offset by an improvement in the rest of the current account and the total cumulative deficit in the current account in 2014 stabilized at its 2013 level and reached €5.3 billion, 1.3% of GDP.

The situation in the labor market was relatively good and stable while relatively high GDP growth was maintained. The growth in salaries in the business sector averaged 3.7% YoY compared to 2.9% YoY in 2013. The average employment growth was 0.6% YoY against a decline of 1.0% YoY in 2013, which was accompanied by an increase in the number of jobs offered by an average of 26% YoY compared to an increase of 13% in 2013, and a decrease in the number of newly registered unemployed by an average of 10% YoY compared to an increase of 3% in 2013. Due to the sustained demand for labor, the unemployment rate fell at the end of November to 11.4% compared to 13% at the end of 2013.

In 2014 the consumer price index did not change on an annual basis after a rise by 0.9% YoY in 2013. During the year, inflation gradually declined from 0.5% YoY in January to a record low of -1% in December, which was largely due to a decrease in petrol and food prices. After elimination of food and energy prices, in 2014 inflation reached an average of 0.6% YoY compared to 1.2% YoY in 2013, and after reaching the level of 1.1% YoY in March, it fell to 0.5% at the end of the year.

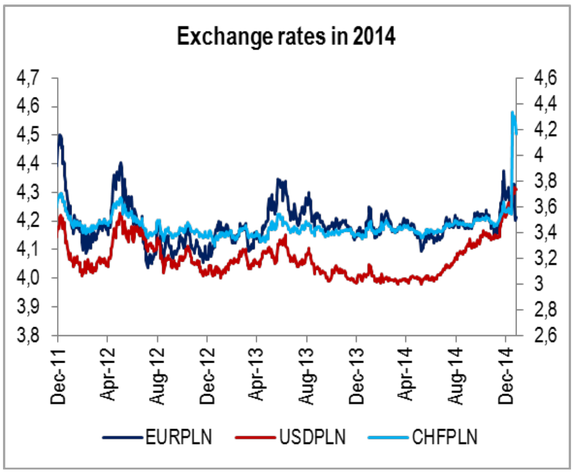
Due to the significant decline in inflation and deteriorating prospects for growth in the second half of the year as reflected in the monthly data on economic activity, in October the MPC decided to cut interest rates by 50 bps. The reference rate reached a record low of 2%.



Source: Chief Statistical Office, own calculations

2. Money and forex markets

In 2014 the Polish zloty weakened against major currencies. The EUR/PLN rate remained relatively stable for most of the year, and grew in periods of rising geopolitical risks in connection with the Russian-Ukrainian conflict as well as at the end of the year with the weakening of the rouble, which contributed to the increased volatility in the currency markets in the region and worsening economic prospects of major trading partners. The zloty weakened against the euro at the end of December from 4.15 to 4.29 at the end of 2013. The weakening of the zloty against the dollar was much higher due to the global trend of strengthening of the dollar against the euro. The EUR/USD rate decreased from 1.37 at the end of 2013 to 1.21 at the end of 2014 due to much more optimistic forecasts of economic growth in the United States than in the eurozone, as well as due to the gradual reduction in asset purchases by the Fed and rising expectations regarding commencement of the quantitative easing plan to be launched by the European Central Bank. Therefore, the USD/PLN rate grew during the year by approx. 17% from 3.02 to 3.54.



Treasury bond prices grew throughout almost the entire year, which was due to the falling inflation, rising expectations of further easing of monetary policy and strengthening of core markets. The yield of 2Y Treasury bonds decreased from 3.03% to 1.77% at the end of 2013 while the yield of 10Y bonds fell from 4.35% to 2.54% respectively. The reduction in interest rates led to a decline in the WIBOR3M rate from 2.71% to 2.06% at the end of 2013. At the same time the CDS rate that reflects the current market credit rating of Poland decreased during the year from 79 bp to 71 bp.

3. Capital market

Despite low interest rates and the improving economic situation in Poland, 2014 brought no significant changes in the domestic stock market. China's economic slowdown and the escalation of the Ukrainian-Russian conflict, as well as local factors (such as lower demand for shares of companies listed on the Warsaw Stock Exchange (WSE) from open pension funds due to changes in regulations governing the second pillar of the pension system, the lack of inflows into domestic equity funds) - these factors significantly limited the potential for increases in share prices of companies listed on the WSE.

In the past year the broadest market index WIG recorded a nominal uplift of 0.3%. The blue chips index, WIG20, decreased in value by 3.5%, although this is primarily the result of dividends (WIG20TR, which takes into account this factor, improved its quotations by 0.5% compared to the end of 2013). The mid-cap index, mWIG40, performed somewhat better and rose by 4.1% per annum.

Among the sectoral sub-indices, the following had positive results: WIG-Energia (gained 23.6%) and the WIG-Media media companies index (with a return rate of 10.5%). On the other hand, the companies from the food sector were under the greatest pressure (the index lost 24% of its value) and raw materials sector (-15.5% compared to the level at the end of 2013).

In 2014 shares of 28 entities were introduced to trading in the main market of the WSE. Although in terms of the number of IPOs there was an improvement on an annual basis (in 2013 the number of IPOs was 23), the value of offerings was significantly lower YoY (PLN 1.3 billion compared to PLN 5.1 billion in the previous year). In the past year, shares of 5 companies were withdrawn from the market, as a result of which at the end of 2014 shares of 471 entities were traded (including 51 foreign companies).

At the end of 2014 the market value of all companies listed on the WSE was PLN 1,253 billion and increased significantly compared to the end of 2013 by 49%, which resulted primarily from the introduction to the main floor of shares of Banco Santander (without this effect the total market value of companies on the WSE increased by 3.5% YoY). Consequently, the share of foreign companies in the total capitalization of the WSE increased from 29% to 53%.

Stock market indices, as at 31 December 2014

Index	2014	Change (%)	2013	Change (%)	2012
WIG	51,416.08	0.3%	51,284.25	8.1%	47,460.59
WIG-PL	52,805.46	0.8%	52,377.63	9.8%	47,709.64
WIG-DIV	1,151.73	1.8%	1,131.43	2.5%	1,103.30
WIG20	2,315.94	(3.5%)	2,400.98	(7.0%)	2,582.98
WIG20TR	3,680.89	0.5%	3,662.04	(1.8%)	3,729.44
WIG30*	2,487.52	(2.0%)	2,537.53	-	-
mWIG40	3,483.45	4.1%	3,345.28	31.1%	2,552.54
Sector sub-indices					
WIG-Banks	7,960.97	(0.7%)	8,014.15	20.5%	6,648.51
WIG-Construction	2,143.29	(5.0%)	2,257.09	33.5%	1,690.66
WIG-Chemicals	11,383.76	(2.3%)	11,645.90	20.6%	9,658.35
WIG-Developers	1,340.47	(9.8%)	1,486.67	2.8%	1,446.06
WIG-Energy	4,268.12	23.6%	3,453.73	(7.9%)	3,748.02
WIG-IT	1,386.48	1.7%	1,363.92	21.9%	1,118.85
WIG-Media	3,840.32	10.5%	3,476.78	31.0%	2,654.07
WIG-Fuel	3,381.16	5.2%	3,215.11	(10.0%)	3,571.11
WIG-Food	2,468.65	(24.0%)	3,249.28	(11.4%)	3,666.41
WIG-Commodities	3,481.62	(15.5%)	4,118.45	(32.1%)	6,063.70
WIG-Telecoms	924.52	(8.0%)	1,005.35	(9.1%)	1,106.15

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

Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2014

	2014	Change (%)	2013	Change (%)	2012
Shares (PLN million)*	465 730	(9,1%)	512 293	26,3%	405 760
Bonds (PLN million)	1 983	(40,0%)	3 305	58,5%	2 085
Futures (‘000 contracts)	18 004	(23,8%)	23 612	11,5%	21 185
Options (‘000 contracts)	958	(40,8%)	1 617	13,0%	1 431

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

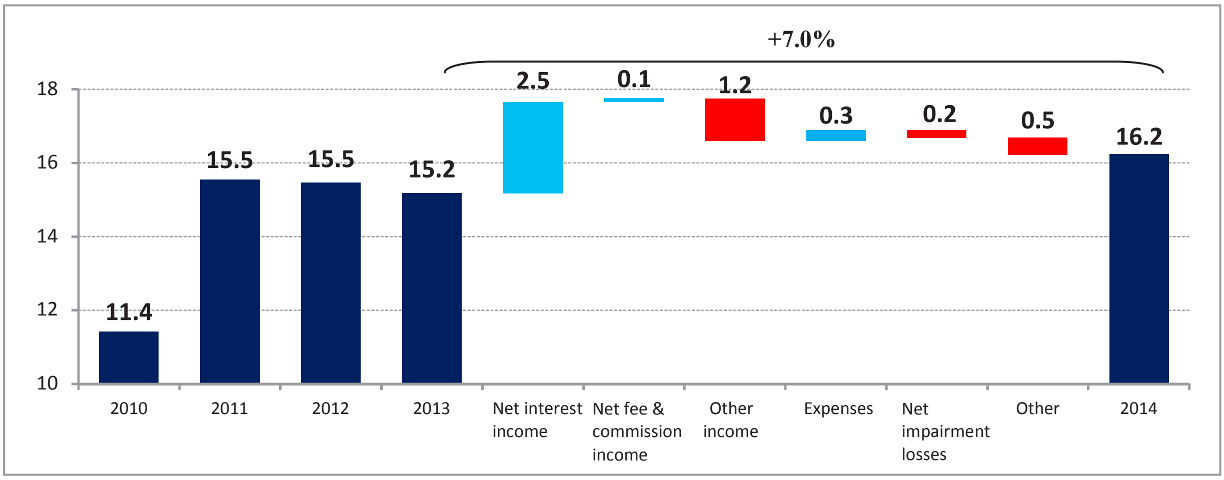
The year 2014 was characterized by a decrease in investment activity in all segments of the capital market. The value of equities trading decreased by 9.1% YoY reaching over PLN 465 billion.

The bond market recorded significantly lower trading, where the trading value decreased by 40% compared with the previous year, reaching PLN 2.0 billion.

Similar trends occurred in the derivatives market. 2014 ended with a decrease in the volume of trading in futures by almost 24% (to 18 million). Even higher falling rates in the volume were observed in the options market (-41% YoY to 958,000).

4. Banking sector

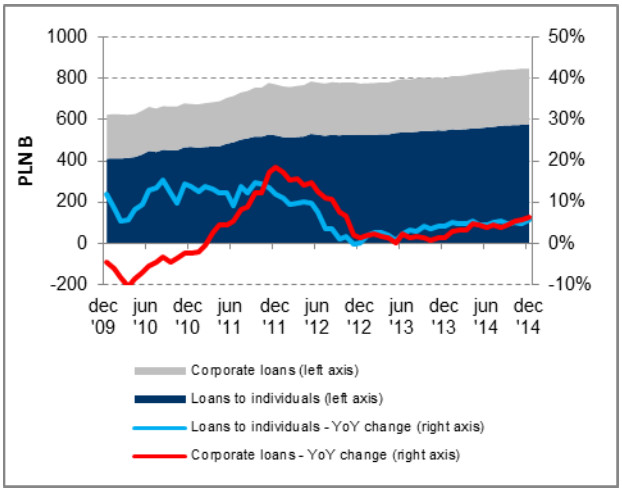
Net profit of the banking sector (PLN billion)



Source: KNF, own calculations

According to data from the PFSA, the net profit of the banking sector in 2014 increased by 7.0% compared to the previous year (PLN +1.1 billion) to the level of PLN 16.2 billion, which is a record high result. Compared to the previous record set in 2011, this represents an increase by 4.4%. The main driver of high profits was the improvement in net interest income by 7.1% YoY (PLN +2.5 billion). Net fee and commission income remained at a similar level, increasing by 0.7% YoY (PLN +0.1 billion), while the net income on other banking activity fell by 12.6% YoY (PLN -1.2 billion). As a result, the total revenue of the banking sector increased by PLN 1.4 billion, reaching nearly PLN 58.7 billion. The net result of the banking sector was positively affected by the decrease in costs by 0.9% YoY (PLN 0.3 billion). Consequently, the effectiveness of the sector as measured by the cost/income ratio improved. The ratio dropped from 53% in 2013 to 51% in 2014. Net impairment losses increased by 2.5% YoY (PLN -0.2 billion), despite the improvement in the quality of the loan portfolio as determined by the NPL ratio (by -0.4 pp YoY to 7.0%). The most significant improvement was observed in the area of consumer loans, where the NPL ratio decreased during the year by -1.8 p.p. to 12.8% at the end of December 2014. No changes were recorded in the portfolio of real property loans, which was related to the deterioration in the quality of foreign currency loans and improvement in the quality of loans denominated in PLN. As a result, the NPL ratio for loans extended to households improved for the second consecutive year (6.5% compared to 7.1% at the end of 2013 and 7.4% at the end of 2012). An improvement in the portfolio quality ratio was noted for corporate loans as well. The NPL fell by -0.4 p.p. YoY to 11.2%. Improvement in the ratio was recorded for loans granted to large enterprises (-0.6 p.p. YoY to 9.0%) as well as loans extended to small and medium-sized enterprises (-0.3 p.p. YoY to 12,7%).

Loans granted to corporate and individual clients

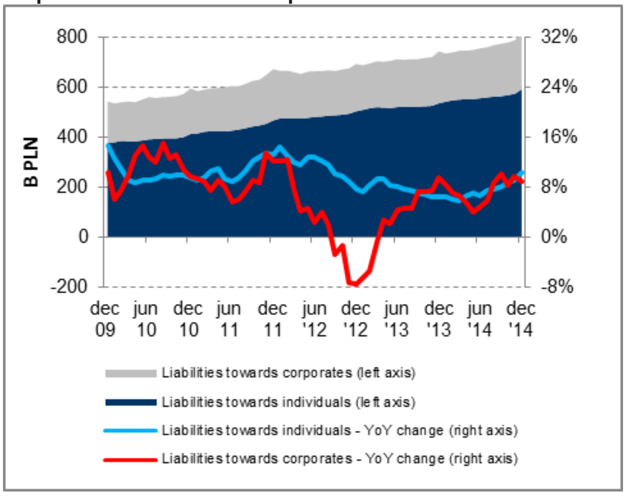


Source: NBP, own calculations.

The growth rate of loans to the non-financial sector gradually improved throughout year and reached 6.1% YoY at the end of December 2014 (PLN +55.1 billion). The value of loans granted to enterprises increased by 6.4% YoY and reached PLN 268.9 billion at the end of 2014. Taking into consideration the purpose of loans incurred by business, the highest growth rate was recorded for investment loans (9.9% YoY), while a significant change in trend was driven by strong growth in the current loan balance (+5.8% YoY at the end of 2014 compared to -1.4% YoY at the end of 2013). The highest growth in loans by maturity was recorded for medium-term loans granted for a period of one to five years (+8.7% YoY), while the volumes of short-term loans granted for a period of less than one year and long-term loans for a period longer than five years increased by 5.3% YoY and 8.1% YoY respectively.

In the category of loans extended to households an increase in volumes was also recorded (5.6% YoY, PLN +30.7 billion to PLN 577.8 billion). It should be noted that the increase was the result of recovery in the category of real property loans (6.0% YoY, PLN +20.3 billion to PLN 360.8 billion) and slightly weaker growth in consumer loans (4.5% YoY, PLN +5.9 billion to PLN 137.4 billion). Taking into account the impact of the weakening of the zloty against major currencies, the annual growth rate of real property loans was slightly lower and reached 3.7% YoY. The segment of PLN property loans grew at a very high rate, by 13.5% YoY (PLN +23.5 billion).

Corporate and individual deposits

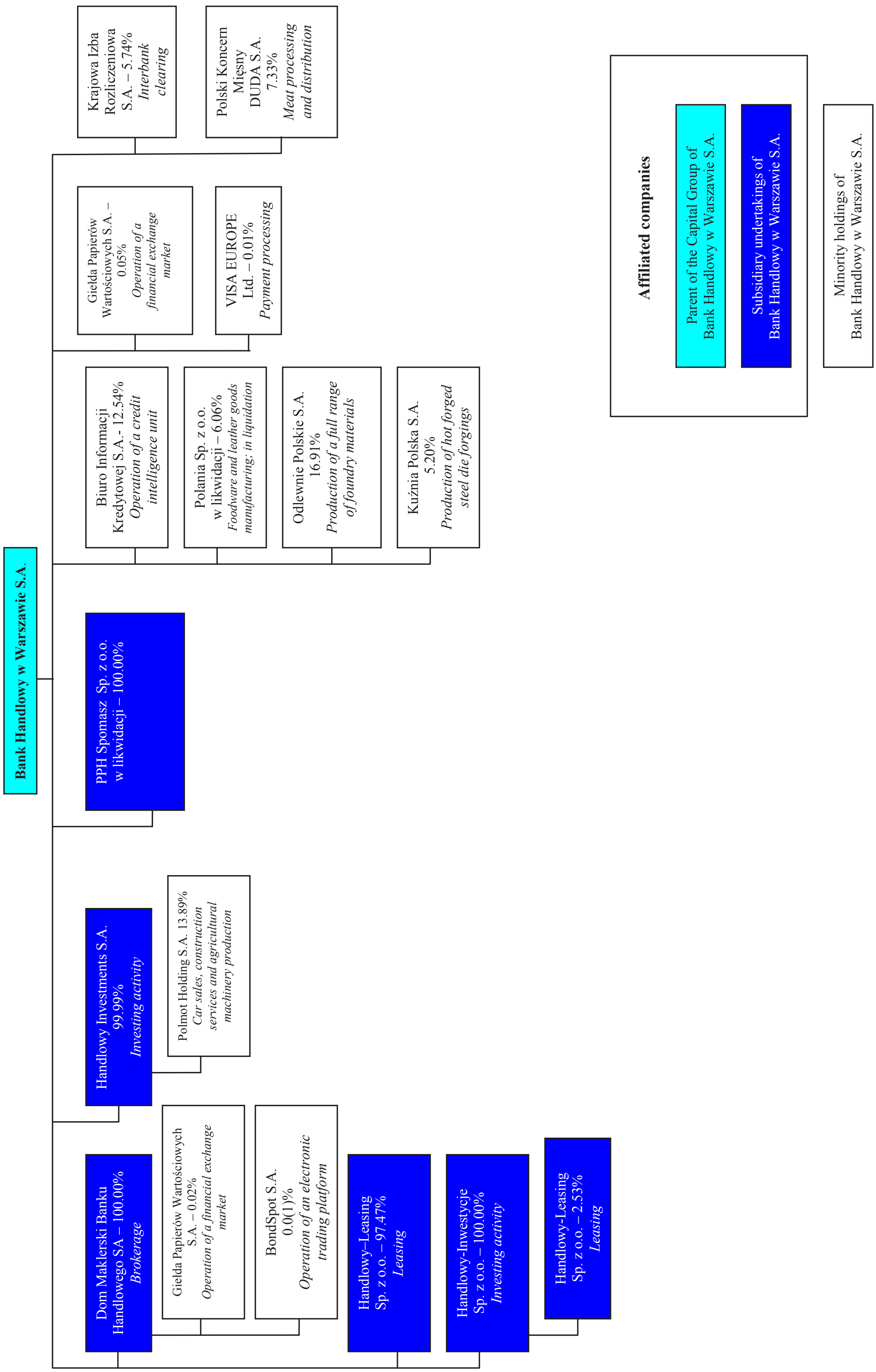


Source: NBP, own calculations.

Deposits grew by 9.0% YoY (PLN +18.7 billion, to PLN 226.7 billion). This increase was mainly due to the continuing high level of current deposit growth (+10.4% YoY to PLN 124.2 billion). For term deposits, the trend was subject to strong fluctuations during the year and reached the growth rate of +7.3% YoY (to PLN 102.5 billion) at the end of December. Household deposits recorded a significant increase in volumes. Their volume grew by 10.4% YoY (PLN +56.0 billion) to PLN 592.5 billion. Unlike in the case of deposits from enterprises, the growth was mainly driven by fixed-term deposits (+13.2% YoY, PLN +34.2 billion, to PLN 294.2 billion) and to a lesser extent, current deposits, the volume of which increased by 7.9% YoY (PLN +21.8 billion, to PLN 298.3 billion).

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

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. (“Bank”) as at 31 December 2014; the Bank’s share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA – 100.00%
Brokerage
Giełda Papierów Wartościowych S.A. – 0.02%
Operation of a financial exchange market
BondSpot S.A.
0.0(1)%
Operation of an electronic trading platform
Handlowy–Leasing Sp. z o.o. – 97.47%
Leasing
Handlowy-Inwestycje Sp. z o.o. – 100.00%
Investing activity
Handlowy-Leasing Sp. z o.o. – 2.53%
Leasing
Handlowy Investments S.A.
99.99%
Investing activity
Polmot Holding S.A. 13.89%
Car sales, construction services and agricultural machinery production
PPH Spomasz Sp. z o.o.
w likwidacji – 100.00%
Biuro Informacji Kredytowej S.A.- 12.54%
Operation of a credit intelligence unit
Polania Sp. z o.o.
w likwidacji – 6.06%
Foodware and leather goods manufacturing; in liquidation
Odlewnie Polskie S.A.
16.91%
Production of a full range of foundry materials
Kuźnia Polska S.A.
5.20%
Production of hot forged steel die forgings
Giełda Papierów Wartościowych S.A. –
0.05%
Operation of a financial exchange market
VISA EUROPE Ltd. – 0.01%
Payment processing
Krajowa Izba Rozliczeniowa S.A. – 5.74%
Interbank clearing
Polski Koncern Mięsny DUDA S.A.
7.33%
Meat processing and distribution
Affiliated companies
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiary undertakings of Bank Handlowy w Warszawie S.A.
Minority holdings of Bank Handlowy w Warszawie S.A.

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

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

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	7,348,585
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	106,511
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	139,765
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	40,246
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 2014*
*** 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	10,889

**** Pre-audit data*

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

1. Major Developments in 2014

In 2014 the Bank had to face a challenging market environment (historically low interest rates) and regulatory environment (reduction in the interchange fees).
In the past year, the Group focused its efforts on strategic areas, as evidenced by the following achievements and events:

- Dynamic **increase in lending** at +10% YoY (institutional customers +9% and individual customers +11%);
- Regular **increase in deposits** being the effect of a **concentration on operational accounts** at +12% YoY (institutional customers +14%, individual customers +11%);
- **High effectiveness** - Key Performance Indicators remained high, at a level better than the sector level:
  - return on assets (ROA) at 2.0% (sector: 1.1%);
  - return on tangible equity (ROTE) at 18.1% (sector: 10.3%);
- Consistent **cost control** – a drop in operating costs and depreciation in 2014 by 7% (a drop by 3% without the effect of the restructurisation provision established in Q4 2013);
- **Low costs of risk**, mainly due to stabilization of the retail portfolio and the sale of the portfolio with impairment of credit cards and cash loans:
  - costs of credit risk (calculated as the relation of net impairment losses to non-financial sector loans) at 0.1% in 2014 compared to 0.3% in 2013;
  - record improved NPL ratio – from 7% in 2013 to 4.9% at the end of 2014;

- **Capital security** of the Bank maintained **at a high level**:
  - Stable liquidity: loans to deposits ratio of 60% (sector: 105%);
  - High quality of assets and equities confirmed in stress tests: at the end of 2016 CAR / CET1 amounting to 15.74% under normal conditions, 14.92% under stress, with assumed dividend payments at 100% of the net profit for 2014-2016;
- Dynamic **development of retail banking**
  - Continued development of the Smart Banking Ecosystem to improve effectiveness of the sales channel for the retail customer by locating the Smart branches in the most popular urban locations and by using the latest technologies to facilitate contact with the Bank (mobile and online solutions). At the end of 2014, 12 Smart branches operated within the network of Citi Handlowy, one with a separated Gold zone for affluent customers;
  - Development of Globalny Citi Handlowy by providing customers with online transfers among accounts in the Citi Group and using payments abroad without currency conversions;
- Leading position in the **financial markets**:
  - DMBH is the leader in the **capital market** with a 13% share in stock trading on the secondary market (increase by 0.6 p.p. YoY);
  - DMBH recorded an **increase in the number of investment accounts** by 7% YoY, indirectly driven by implementation of the new transactional platform, CitiFX Pro;
  - Ranked first in the prestigious ranking of the Ministry of Finance as the **Treasury Securities Dealer** in 2014 (second year in a row);
  - Consistent **increase in the volume of currency exchange** on the CitiFX Pulse transactional platform: 8% YoY;
- Successes of **transactional banking**:
  - **Ranked first** in Poland in the transactional banking ranking, **Euromoney Cash Management Survey 2014**;
  - An increase in domestic and international payments, 5% YoY and 10% YoY respectively;
  - Expansion in trade finance: an increase of the average balance of financed trade debt by 24% YoY;
- Development of the **global offering** for customers and loan volume growth:
  - **A regular increase** in the number of enterprises supported by Citi Handlowy in the **Emerging Market Champions Programme**: +59 YoY of global companies investing in Poland, +16 YoY of Polish companies investing on a global basis;
  - 16% increase in the Compound Annual Growth Rate (CAGR) for the portfolio of institutional customers over the past 5 years (sector: +9%);
- **Creating value for shareholders** – security and stable position of the Bank confirmed with a consistent dividend policy. In 2014 the Bank earned **PLN 971 million profit to be distributed** (an increase by 4% compared to 2013, when the Bank recorded the highest dividend rate among WSE listed banks);
- In 2014 the Bank was listed on the prestigious WSE indices: **Respect index** (index of responsible companies with high standards of corporate governance, information governance and investor relations) and the **MSCI Global Sustainability Index** (index of companies with high standards in the areas of corporate governance, environmental protection and social responsibility).

2. Summary financial data of the Group

PLN million	**2014**	**2013**
Total assets	49,843.7	45,398.4
Equity	7,410.8	7,307.3
Loans*	16,770.5	15,231.3
Deposits *	29,499.9	26,084.7
Net profit	947.3	972.7
Capital adequacy ratio	17.5%	17.5%

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

3. Financial results of the Group in 2014

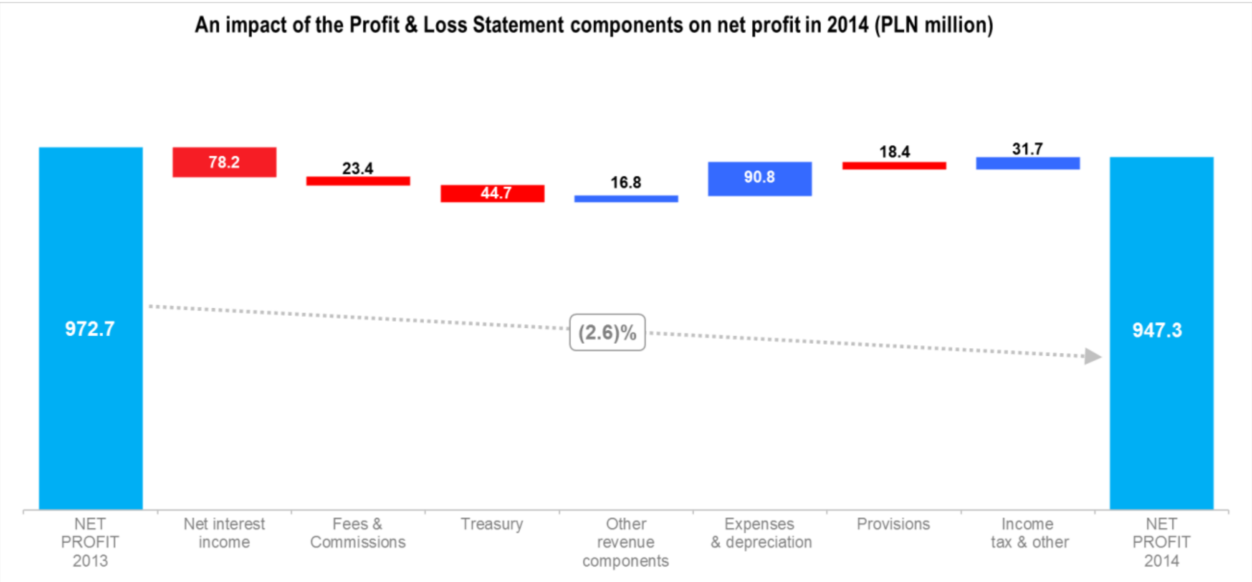
3.1 Income statement

In 2014 the Group earned profit after tax of PLN 947.3 million i.e. PLN 25.4 million lower (i.e. by 2.6%) compared to the profit for 2013. The consolidated profit before tax for 2014 was PLN 1,167.7 million and fell by PLN 50.4 million (i.e. 4.1%) compared to the previous year.

Selected income statement items

PLN '000	2014	2013	Change	
			PLN '000	%
Net interest income	1,163,943	1,242,152	(78,209)	(6.3%)
Net fee and commission income	618,931	642,302	(23,371)	(3.6%)
Dividend income	5,783	4,416	1,367	31.0%
Net gains on financial instruments held for trading and on revaluation	382,160	349,000	33,160	9.5%
Net gains on investment debt securities	229,922	305,339	(75,417)	(24.7%)
Net gains on investment equity instruments	6,429	1,844	4,585	248.6%
Net gain on hedge accounting	(379)	2,050	(2,429)	-
Net other operating income	10,585	(242)	10,827	-
Total income	**2,417,374**	**2,546,861**	**(129,487)**	**(5.1%)**
Overheads and general administrative expenses and depreciation, including	(1,273,880)	(1,364,643)	90,763	(6.7%)
Overheads and general administrative expenses	(1,202,516)	(1,302,008)	99,492	(7.6%)
Depreciation/amortization of tangible and intangible fixed assets	(71,364)	(62,635)	(8,729)	13.9%
Net gains on sale of other assets	6,384	1,050	5,334	508.0%
Net change in impairment losses	17,804	36,204	(18,400)	(50.8%)
Share in net profits/(losses) of entities valued by equity method	28	(1,326)	1,354	-
Profit before taxation	**1,167,710**	**1,218,146**	**(50,436)**	**(4.1%)**
Income tax expense	(220,398)	(245,438)	25,040	(10.2%)
Net profit for the year	**947,312**	**972,708**	**(25,396)**	**(2.6%)**

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



The following factors contributed to a change in net profit for 2014 as compared with 2013:

- Operating revenue (comprising net interest and commission income, dividend revenues, net gains on financial instruments held for trading and on revaluation, net gains on investment debt securities, net gains on investment equity instruments, net gains on hedge accounting and net gains on other operating revenues and income) at PLN 2,417.4 million compared to PLN 2,564.9 million in 2013 – a drop by PLN 129.5 million (i.e. 5.1%) compared to 2013 revenues, mainly as a result of a drop in net interest income following a decrease in interest rates and lower net gains on treasury activities;

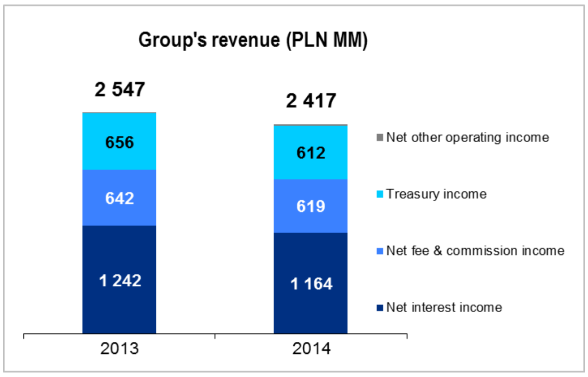
- Overheads and general administrative expenses and depreciation at PLN -1,273.9 million compared to PLN -1,364.6 million in the previous year – a drop in costs by PLN 90.8 million (i.e. 6.7%). In 2013 the Bank created a restructurisation provision posted to costs at PLN 62.4 million. With the provision excluded, the drop in costs compared to 2013 was PLN 28.4 million, i.e. 3%;
- Reversal of net impairment losses for financial assets at PLN 17.8 million compared to PLN 36.2 million in 2013 through further stabilization of the credit portfolio quality.

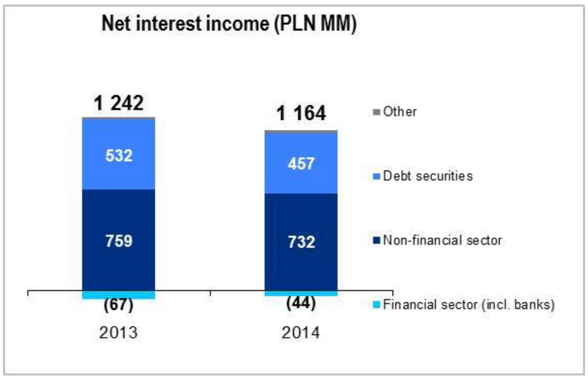
3.1.1 Revenue

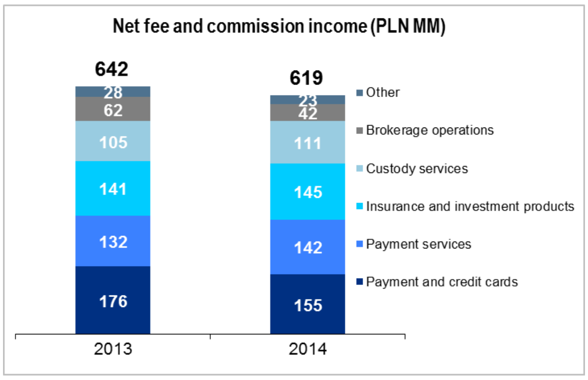
In 2014 revenues from operating activity totaled PLN 2,417.4 million compared to PLN 2,546.9 million in the previous year, which means a drop by PLN 129.5 million, i.e. 5.1%.

In 2014 operating revenues were affected by the following factors:

- net interest income at PLN 1,163.9 million compared to PLN 1,242.2 million in 2013 – a drop by PLN 78.2 million, i.e. 6.3%, at times of historically low interest rates. As a result, a drop in revenues from interest related to receivables from customers was recorded at PLN 95.9 million (i.e. 9.2%), which was partly compensated with a lower level of interest costs (drop by PLN 79.1 million, i.e. 19.6%). A major drop in net interest income as recorded for the portfolio of debt securities – by a total of PLN 75.4 million, i.e. 14.2% for marketable and available-for-sale debt securities;







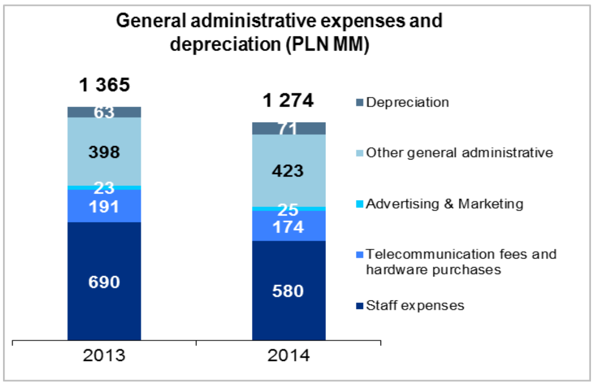
- net fee and commission income at PLN 618.9 million compared to PLN 642.3 million in 2013 – a drop by PLN 23.4 million, i.e. 3.6% was mainly the effect of lower revenues from payment and credit cards in connection with implementation of the lowered interchange fee from 1 July 2014 (to 0.5%), partially offset with an increase in sales of instalment products for credit cards and an increase in the volume of transactions made with payment cards. In addition, for another year an increase in net commission income from the sales of investment and insurance products was recorded. As regards the area related to financial markets, there was a drop in commission on brokerage activities (the result of a drop in WSE trading and a lower number of transactions in the capital market), while the custodial services achieved higher revenues;
- net gains on trading financial instruments and revaluation at PLN 382.2 million compared to PLN 349.0 million in 2013, i.e. an increase by PLN 33.2 million mainly as a result of higher net gains related to activities in the interbank market;
- net gains on investment debt securities at PLN 229.9 million – lower by PLN 75.4 million compared to the previous year;
- net other operating income of PLN 10.6 million compared to PLN -0.2 million in 2013, i.e. improvement by PLN 10.8 million.

3.1.2 Expenses

General expenses & depreciation

PLN '000	2014	2013	Change	
			PLN '000	%
Personnel costs	**579,994**	**689,625**	**(109,631)**	**(15.9%)**
General administrative expenses, including:	**622,522**	**612,383**	**10,139**	**1.7%**
Telecommunication fees and IT hardware	174,244	191,038	(16,794)	(8.8%)
Building maintenance and rent	100,037	101,919	(1,882)	(1.8%)
Costs of external services, including advisory, audit, consulting services	71,405	63,019	8,386	13.3%
Total overheads	**1,202,516**	**1,302,008**	**(99,492)**	**(7.6%)**
Depreciation	71,364	62,635	8,729	13.9%
Total general expenses & depreciation	**1,273,880**	**1,364,643**	**(90,763)**	**(6.7%)**

Overheads and general administrative expenses and depreciation at PLN 1,273.9 million compared to PLN 1,364.6 million in the previous year – a drop in costs by PLN 90.8 million (i.e. 6.7%) as a result of restructurisation savings partly reinvested in transformation of the network of branches (including the Smart Banking Ecosystem), technology and marketing. At the same time, in Q4 2014 one-time costs of terminating cooperation with selected service providers of the Bank were recognized at PLN 12 million.



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

Net impairment and provisions

PLN '000	2014	2013	Change	
			PLN '000	%
Net impairment losses incurred but not reported (IBNR)	17,932	28,820	(10 888)	(37.8%)
Net impairment losses on loans and off-balance sheet liabilities	(2,336)	6,833	(9 169)	(134,2%)
accounted for individually	(18,761)	(19,407)	646	(3.3%)
accounted for collectively, on a portfolio basis	16,425	26,240	(9 815)	(37.4%)
Net impairment losses on equity investments	-	-	-	-
Other	2,208	551	1 657	300.7%
Net impairment losses on financial assets and provisions for financial and guarantee commitments	**17,804**	**36,204**	**(18 400)**	**(50.8%)**

Positive net impairment losses on financial assets and provisions for financial and guarantee commitments at PLN 17.8 million compared to the positive net impairment losses in 2013 at PLN 36.2 million. In the Commercial Bank, net impairment was recorded at PLN 1.6 million, against PLN 26.1 million in 2013. This was the result of stabilization of the credit portfolio managed on the outstanding base and the lower level of net impairments for MMEs and SMEs. In the Consumer Bank sector, there was a reversal of net impairments at PLN 19.4 million in 2014 compared to PLN 62.3 million of net impairment reversal in 2013. The reduction in net impairment reversal by PLN 42.9 million is the result of gradual stabilization of the portfolio quality in 2014, which generates lower dissolution of the IBNR than in 2013 and the dwindling expected recoveries from the portfolio with the impairment and the increase in the portfolio average age. In Q4 2014 part of retail exposures was sold. The sale involved receivables related to cash loans and credit cards with impairment at PLN 161.6 million for PLN 34.7 million.

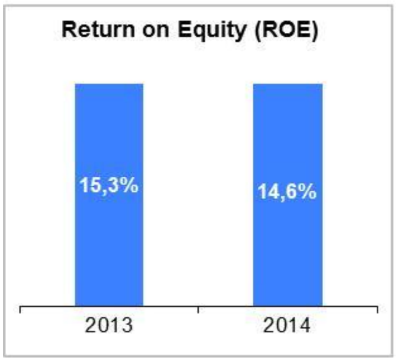
3.1.4 Ratio analysis

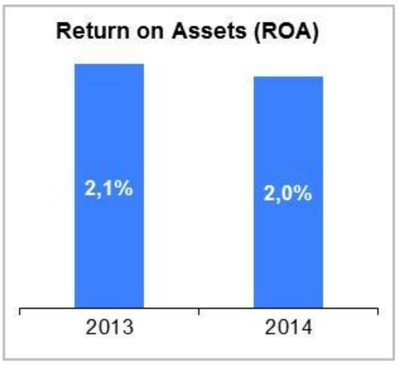
The Group's efficiency ratios

	2014	2013
Return on equity (ROE)*	14,6%	15.3%
Return on assets (ROA)**	2,0%	2.1%
Net interest margin (NIM)***	2,4%	2.7%
Margin on interest-bearing assets	2,8%	3.2%
Earnings per share in PLN	7,25	7.44
Cost/income****	53%	54%
Non-financial sector loans to non-financial sector deposits	60%	64%
Non-financial sector loans to total assets	32%	32%
Net interest income to total revenue	48%	49%
Net fee and commission income to total revenue	26%	25%

** 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 2014 the Bank maintained a capital and assets return ratios at a high level of 14.6% and 2.0% respectively.





In the area of cost effectiveness, the cost to income ratio fell to 53% i.e. improved by 1 p.p. compared to the previous year.

In connection with a reduction of basic interest rates in 2014 (reference rate by 50 bp and lombard rate by 100 bp), the margin on interest deteriorated to 2.4% on total assets and 2.8% on interest assets.

The Bank maintained a safe position in terms of liquidity and capital adequacy, as confirmed by the following ratios: loans to deposits at 60% and capital adequacy ratio at 17.5%.

3.2 Consolidated statement of financial position

As at 31 December 2014, total assets of the Group reached PLN 49,843.7 million and were 9.8% higher than at the end of 2013.

Consolidated statement of financial position

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
ASSETS				
Cash and balances with central bank	1,522,949,	778,464	744,485	95.6%
Receivables from banks	2,065,685	3,539,927	(1,474,242)	(41.6%)
Financial assets held for trading	12,721,573,	5,751,829	6,969,744	121.2%
Debt securities available-for-sale	14,435,099,	17,616,041	(3,180,942)	(18.1%)
Equity investments, held at equity value	7,765	7,814	(49)	(0.6%)
Equity investments available-for-sale	8,211	15,280	(7,069)	(46.3%)

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Receivables from customers	16,770,482	15,231,327	1,539,155	10.1%
Property and equipment	366,857	384,581	(17,724)	(4.6%)
Intangible assets	1,387,745	1,417,363	(29,618)	(2.1%)
Receivables due to current income tax	13,255	80,854	(67,599)	(83.6%)
Asset due to deferred income tax	157,319	203,132	(45,813)	(22.6%)
Other assets	384,612	359,039	25,573	7.1%
Non-current assets available-for-sale	2,113	12,738	(10,625)	(83.4%)
Total assets	**49,843,665**	**45,398,389**	**4,445,276**	**9.8%**
LIABILITIES				
Liabilities towards banks	5,122,576	6,378,436	(1,255,860)	(19.7%)
Financial liabilities held for trading	6,770,922	4,196,896	2,574,026	61.3%
Hedging derivatives	-	24,710	(24,710)	(100.0%)
Liabilities towards customers	29,632,598	26,568,765	3,063,833	11.5%
Provisions	26,409	89,284	(62,875)	(70.4%)
Current income tax liabilities	186	84	102	121.4%
Other liabilities	880,214	832,950	47,264	5.7%
Total liabilities	**42,432,905**	**38,091,125**	**4,341,780**	**11.4%**
EQUITY				
Issued capital	522,638	522,638	-	-
Supplementary capital	3,000,298	2,997,759	2,539	0.1%
Revaluation reserve	52,873	(42,963)	95,836	-
Other reserves	2,893,523	2,859,388	34,135	1.2%
Retained earnings	941,428	970,442	(29,014)	(3.0%)
Total equity	**7,410,760**	**7,307,264**	**103,496**	**1.4%**
Total liabilities and equity	**49,843,665**	**45,398,389**	**4,445,276**	**9.8%**

3.2.1 Assets

Gross receivables from clients

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Non-banking financial entities	1,040,446	734,594	305,852	41.6%
Non-financial sector entities	10,155,119	9,503,087	652,032	6.9%
Individuals	6,280,166	5,819,087	461,079	7.9%
Public entities	93,643	157,909	(64,266)	(40.7%)
Other non-financial sector entities	4	683	(679)	(99.4%)
Total gross receivables from clients	**17,569,378**	**16,215,360**	**1,354,018**	**8.4%**

Gross amounts due from customers increased by 8.4% year on year and stood at PLN 17.6 billion in 2014. An increase was reported mainly for non-financial sector entities (PLN 0.7 billion, i.e. 6.9% compared to the end of 2013) and individual customers (PLN 0.5 billion, i.e. 7.9%). At the same time, net receivables from individual customers in 2014 were 11.4% higher YoY and resulted from an increase in the balance of mortgage loans (+15.7% YoY) and cash loans (+15.2% YoY).

Net receivables from clients

PLN '000	31.12.2014	31.12.2013	Change	
			PLN '000	%
Receivables from financial sector entities	**1,021,364**	**715,466**	**305,898**	**42.8%**
Receivables from non-financial sector entities, including:	**15,749,118**	**14,515,861**	**1,233,257**	**8.5%**

PLN '000	31.12.2014	31.12.2013	Change	
			PLN '000	%
Corporate clients*	9,864,270	9,232,581	631,689	6.8%
Individuals, including:	5,884,848	5,283,280	601,568	11.4%
Unhedged liabilities	4,648,480	4,215,081	433,399	10.3%
Mortgage loans	1,236,368	1,068,199	168,169	15.7%
Total net receivables from clients	**16,770,482**	**15,231,327**	**1,539,155**	**10.1%**

**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 at the end of 2014 by PLN 1.7 billion (i.e. by 8.6%). This was the result of an increased position in the Treasury bonds.

Debt securities portfolio

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Treasury bonds, including:	15,697,616	8,680,192	7,017,424	80.8%
covered bonds in fair value hedge accounting	-	1,836,219	(1,836,219)	(100.0%)
Bank bonds	1,319,809	1,402,876	(83,067)	(5.9%)
NBP bills	14,799	-	14,799	-
Bills issued by nonfinancial entities	4,499,750	9,748,646	(5,248,896)	(53.8%)
Total	**21,531,974**	**19,831,714**	**1,700,260**	**8.6%**

3.2.2 Liabilities

Liabilities towards customers

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Deposits of financial sector entities	**3,115,435**	**3,259,867**	**(144,432)**	**(4.4%)**
Deposits of non-financial sector entities, including	**26,384,513**	**22,824,846**	**3,559,667**	**15.6%**
Non-financial sector entities	13,841,863	11,956,825	1,885,038	15.8%
Non-commercial institutions	421,085	396,577	24,508	6.2%
Individuals	7,661,993	6,907,183	754,810	10.9%
Public sector entities	4,459,572	3,564,261	895,311	25.1%
Other liabilities	**132,650**	**484,052**	**(351,402)**	**(72.6%)**
Total liabilities towards customers	**29,632,598**	**26,568,765**	**3,063,833**	**11.5%**
Deposits of financial and non-financial sector entities, including:				
Liabilities in PLN	23,797,009	20,082,062	3,714,947	18.5%
Liabilities in foreign currency	5,702,939	6,002,651	(299,712)	(5.0%)
Total deposits of financial and non-financial sector entities	**29,499,948**	**26,084,713**	**3,415,235**	**13.1%**

The main position which finances assets of the Bank are deposits from non-banking sector customers, which in 2014 grew by PLN 3.4 billion, i.e. 13.1%. The increase was recorded for funds in current accounts of customers as a result of the consistent strategy focused on operating accounts. The total increase in current deposits of non-banking sector customers exceeded PLN 2.2 billion (i.e. 12.9%), out of which current deposits of institutional customers grew by PLN 0.9 billion, while deposits in current accounts of individual customers grew by PLN 0.4 billion.

3.2.3 Source and use of funds

PLN '000	31.12.2014	31.12.2013
Source of funds		
Funds of banks	5,122,576	6,378,436
Funds of customers	29,632,598	26,568,765

PLN '000	31.12.2014	31.12.2013
Own funds with net income	7,410,760	7,307,264
Other funds	7,677,731	5,143,924
Total source of funds	**49,843,665**	**45,398,389**
Use of funds		
Receivables from banks	2,065,685	3,539,927
Receivables from customers	16,770,482	15,231,327
Securities, shares and other financial assets	27,172,648	23,390,964
Other uses of funds	3,834,850	3,236,171
Total use of funds	**49,843,665**	**45,398,389**

3.3 Equity and the capital adequacy ratio

The value of equities at the end of 2014 remained unchanged compared to the end of the previous year. With an increase in the share premium, reserves and revaluation reserve (by a total of PLN 137.6 million) and a decrease in other capitals (by PLN 8.7 million), the total value of equities at the end of 2014 was higher than a year before by PLN 129.0 million (i.e. 2.0%).

Equity*

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Issued capital	522,638	522,638	-	-
Supplementary capital	3,000,298	2,997,759	2,539	0.1%
Other reserves	2,374,496	2,335,307	39,189	1.7%
Revaluation reserve	52,873	(42,963)	95,836	-
General risk reserve	521,000	521,000	-	-
Other equity	(7,857)	815	(8,672)	-
Total equity	**6,463,448**	**6,334,556**	**128,892**	**2.0%**

** 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 needed for calculation of the capital adequacy ratio based on the consolidated financial statements of the Group.

Capital adequacy ratio*

	PLN '000	31.12.2014	31.12.2013
I	**Common Equity Tier 1 Capital**	**4,944,496**	**4,908,707**
II	**Total capital requirements, of which:**	**2,256,721**	**2,246,769**
	credit risk capital requirements (II*8%)	1,581,701	1,535,628
	counterparty risk capital requirements	87,247	80,127
	Credit valuation correction capital requirements	54,648	-
	excess concentration and large exposures risks capital requirements	64,549	95,500
	total market risk capital requirements	108,215	156,778
	operational risk capital requirements	350,484	363,336
	other capital requirements	9,877	15,400
	Common Equity Tier 1 Capital ratio	**17.5%**	**17.5%**

** Capital Adequacy Ratio calculated according to the current at a given reporting moment rules, appropriately: on 31 December 2014 according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012; on 31 December 2013 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 at 31 December 2014 the capital adequacy ratio of the Bank was 17.5% and remained at the level recorded in 2013.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2014

1. Lending and other risk exposures

1.1 Lending

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

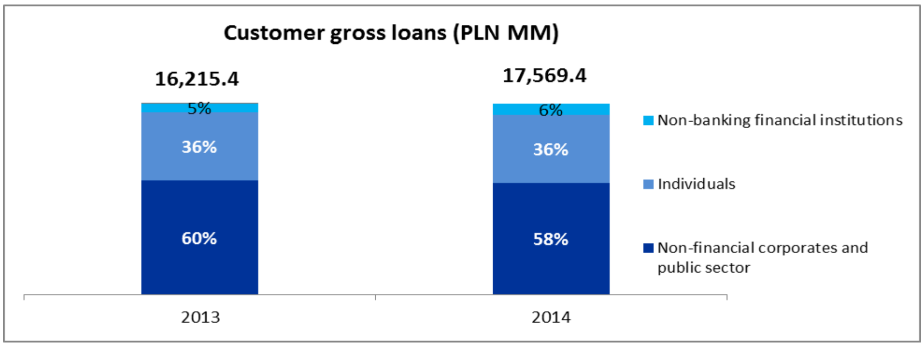
In 2014 the Group focused its credit risk management activities on:

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

Gross loans to customers

PLN '000	As at		Change	
	31.12.2014	**31.12.2013**	**PLN '000**	**%**
Loans in PLN	14,725,406	13,393,843	1,331,563	9.9%
Loans in foreign currency	2,843,972	2,821,517	22,455	0.8%
Total	**17,569,378**	**16,215,360**	**1,354,018**	**8.4%**
Loans to non-financial sector entities	16,528,932	15,480,766	1,048,166	6.8%
Loans to financial sector entities	1,040,446	734,594	305,852	41.6%
Total	**17,569,378**	**16,215,360**	**1,354,018**	**8.4%**
Non-bank financial entities	1,040,446	734,594	305,852	41.6%
Non-financial sector entities	10,155,119	9,503,087	652,032	6.9%
Individuals	6,280,166	5,819,087	461,079	7.9%
Public sector entities	93,643	157,909	(64,266)	(40.7%)
Non-commercial institutions	4	683	(679)	(99.4%)
Total	**17,569,378**	**16,215,360**	**1,354,018**	**8.4%**

As at 31 December 2014 gross credit exposures to customers was PLN 17,569.4 million, an increase by 8.4% compared to 31 December 2013. The largest part of the customer receivables portfolio were loans extended to businesses (57.8%), which increased by 6.9% in 2014. Compared to 2013 receivables from individual customers grew by 7.9% to PLN 6,280 million. The share of these loans in the total gross loans was 35.7%.



As at the end of December 2014, the currency structure of loans outstanding changed slightly as compared to the end of 2013. The share of loans in foreign currencies of 17.4% in December 2013 fell to 16.2% in December 2014. Worth underscoring is the fact that the Group does not grant foreign currency loans to individual customers but only to businesses who have foreign currency cash flows or to entities which, in the Group's opinion, are able to predict or absorb the currency risk without significant threat to their financial position.

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

Concentration of exposure to customers

PLN '000	31.12.2014			31.12.2013		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 1	85,160	916,365	1,001,525	360,239	139,846	500,085
CLIENT 2	575,100	341,450	916,550	716,500	200,050	916,550
GROUP 3	660,806	107,837	768,643	412,479	169,411	581,890
GROUP 4	2	756,906	756,908	43,427	966,055	1,009,482
GROUP 5	184,949	442,417	627,366	157,436	575,257	732,693
GROUP 6	467,864	144,599	612,463	420,819	218,212	639,031
CLIENT 7	550,000	-	550,000	250,000	300,000	550,000
CLIENT 8	-	500,051	500,051	-	500,051	500,051
CLIENT 9	463,200	-	463,200	-	-	-
GROUP 10	220,486	176,527	397,013	323,687	174,815	498,502
Total 10	**3,207,567**	**3,386,152**	**6,593,719**	**2,684,587**	**3,243,697**	**5,928,284**

** 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)*	31.12.2014		31.12.2013	
	PLN '000	%	PLN '000	%
Wholesale trade, excluding trade in vehicles	3,806,391	16.8%	4,026,214	18.7%
Financial intermediation, excluding insurance and pension funds	2,198,632	9.7%	2,182,495	10.1%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,191,652	9.7%	2,537,891	11.8%
Retail trade, excluding retail trade in vehicles	1,561,013	6.9%	1,297,340	6.0%
Production of food and beverages	1,376,794	6.1%	1,242,203	5.8%
Metal ore mining	1,001,440	4.4%	500,000	2.3%
Production and processing of coke and petroleum products	831,430	3.7%	903,130	4.2%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	627,480	2.8%	551,562	2.6%
Public administration and national defense, obligatory social security	624,132	2.7%	674,291	3.1%
Manufacture of rubber and plastic products	614,839	2.7%	407,024	1.9%
Top 10 business sectors	**14,833,803**	**65.3%**	**14,322,150**	**66.5%**
Warehousing and supporting transport services	611,550	2.7%	165,351	0.8%
Production of metal goods, excluding machines and equipment	565,328	2.5%	446,220	2.1%
Wholesale and retail sale of cars, car repairs	519,932	2.3%	672,524	3.1%
Construction of buildings	491,077	2.2%	460,380	2.1%
Manufacture of goods of other non metalic raw materials	440,597	1.9%	361,581	1.7%
Manufacture of chemicals and chemical products	416,413	1.8%	321,366	1.5%
Manufacture of electric appliances	393,911	1.7%	371,546	1.7%
Manufacture of machinery and equipment, not elsewhere classified	348,669	1.5%	364,493	1.7%
Production of basic pharmaceutical substances, medicines and other pharmaceutical products	340,538	1.5%	430,077	2.0%
Manufacture of furniture	330,924	1.5%	336,509	1.6%

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2014		31.12.2013	
	PLN '000	%	PLN '000	%
Top 20 business sectors	**19,292,742**	**84.9%**	**18,252,197**	**84.8%**
Other sectors	**3,418,368**	**15.1%**	**3,265,687**	**15.2%**
Total	**22,711,110**	**100.0%**	**21,517,884**	**100.0%**

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

1.2 Loan portfolio quality

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

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

PLN '000	31.12.2014	31.12.2013	Change	
			PLN '000	**%**
With not recognized credit losses, including:	16 630 827	14,983,311	1,647,516	11.0%
non-financial sector entities	15 609 377	14,267,713	1,341,664	9.4%
corporate clients*	9 811 191	9,093,770	717,421	7.9%
individual clients	5 798 186	5,173,943	624,243	12.1%
With recognized credit losses, including:	847 540	1,135,085	(287,545)	(25.3%)
non-financial sector entities	828 544	1,116,089	(287,545)	(25.8%)
corporate clients*	346 564	470,945	(124,381)	(26.4%)
individual clients	481 980	645,144	(163,164)	(25.3%)
Dues related to matured derivative transactions	91 011	96,964	(5,953)	(6.1%)
Total loans to customers, gross, including:	**17 569 378**	**16,215,360**	**1,354,018**	**8.4%**
non-financial sector entities	16 437 921	15,383,802	1,054,119	6.9%
corporate clients*	10 157 755	9,564,715	593,040	6.2%
individual clients	6 280 166	5,819,087	461,079	7.9%
Impairment, including:	**(798 896)**	**(984,033)**	**185,137**	**(18.8%)**
dues related to matured derivative transactions	(81 134)	(81,556)	422	(0.5%)
Total loans to customers, net	**16 770 482**	**15,231,327**	**1,539,155**	**10.1%**
Provision coverage ratio**	**84.7%**	**79.5%**		
corporate clients*	87.5%	73.8%		
individuals	82.0%	83.1%		
Non-performing loans ratio (NPL)	**4.9%**	**7.0%**		

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

Compared to 2013 the volume of loans with recognized impairment declined by PLN 287.5 million (i.e. 25.3%), which was the result of an improvement in the quality of the corporate customer portfolio (mainly as a result of repayment of restructured receivables), as well as individual customers and the regular writing-off of retail receivables from the balance sheet. In 2014, the NPL ratio fell from 7.0% to 4.9%.

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

As at 31 December 2014 the portfolio impairment was PLN 798.9 million, a decline by 18.8% compared to PLN 984 million at the end of December 2013. Impairment declined mostly for customers for which the Bank applies group approach (by PLN 135 million, i.e. 25.8%). There was also a decline in impairment for

IBNR (a drop by PLN 15.8 million, i.e. 18.1%). The provision coverage ratio went down from 6.1% in December 2013 to 4.5% in December 2014.

Impairment of the customer loan portfolio

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	71,307	87.095	(15,788)	(18.1%)
Impairment of receivables	727,589	896.938	(169,349)	(18.9%)
accounted for individually	339,901	374.159	(34,258)	(9.2%)
accounted for collectively	387,688	522.779	(135,091)	(25.8%)
Total impairment	**798,896**	**984.033**	**(185,137)**	**(18.8%)**
Provision coverage ratio (total loans)	4,5%	6.1%		

1.3 Off-balance-sheet commitments

As at 31 December 2014, contingent liabilities granted by the Group totaled PLN 16,636.6 million, which translated to an increase by 4.6% compared to 31 December 2013. The largest change was related to committed loans which increased by PLN 961.7 million (7.9%). Credit commitments accounted for the majority of the total contingent liabilities granted (i.e. 79.1%). Credit commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities.

Contingent off-balance sheet liabilities granted

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Guarantees	1,779,425	1,775,108	4,317	0.2%
Letters of credit issued	207,208	135,060	72,148	53.4%
Third-party confirmed letters of credit	918	2,509	(1,591)	(63.4%)
Committed loans	13,161,336	12,199,651	961,685	7.9%
Underwriting other issuers' securities issues	1,264,450	1,508,050	(243,600)	(16.2%)
Other	223,233	280,761	(57,528)	(20.5%)
Total	**16,636,570**	**15,901,139**	**735,431**	**4.6%**
Provisions for off-balance sheet liabilities	13,238	13,150	88	0.7%
Provision coverage ratio	0.08%	0.08%		

As at 31 December 2014 the total amount of collateral established on accounts or on assets of the Bank's borrowers amounted to PLN 3,428 million, whereas as at 31 December 2013 it stood at PLN 2,516 million.

In 2014 the Bank issued 7,783 enforcement titles in a total amount of PLN 137.7 million, while in 2013 the Bank issued 10,050 enforcement titles in a total amount of PLN 210.7 million.

2. External funding

As at the end of 2014 the total external funding of the Bank (from customers and banks) stood at PLN 34.8 billion and was PLN 1.8 billion (i.e. 5.5%) higher than at the end of 2013. Deposits in current accounts of customers of the non-financial sector, which grew by PLN 2.3 billion, i.e. 13.6% YoY, accounted for the majority of changes in external funding sources of the activities of the Bank. A higher balance was also recorded for term deposits for the customers of the non-financial sector (PLN +1.2 billion, i.e. 21.3%), while term deposits of banks fell (PLN -1.0 billion, i.e. 29.4%). There was also a drop in repo liabilities (from customers and banks PLN 0.4 billion, i.e. 19.2%).

Funding from banks

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Current account	663,831	861,508	(197,677)	(22.9%)
Term deposits	2,370,212	3,356,503	(986,291)	(29.4%)
Loans and advances received	351,533	374,898	(23,365)	(6.2%)
Liabilities from securities sold under agreement to repurchase	1,726,049	1,783,602	(57,553)	(3.2%)

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Other liabilities	10,951	1,925	9,026	468.9%
Total funding from banks	**5,122,576**	**6,378,436**	**(1,255,860)**	**(19.7%)**

Funding from customers

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Deposits of financial sector entities				
Current accounts	238,351	320,634	(82,283)	(25.7%)
Term deposits	2,877,084	2,939,233	(62,149)	(2.1%)
	3,115,435	**3,259,867**	**(144,432)**	**(4.4%)**
Deposits of non-financial sector entities				
Current accounts, including:	19,299,093	16,983,122	2,315,971	13.6%
Corporate clients	8,594,113	7,703,769	890,344	11.6%
Individuals	6,372,762	5,931,907	440,855	7.4%
Public entities	4,332,218	3,347,446	984,772	29.4%
Term deposits, including:	7,085,420	5,841,724	1,243,696	21.3%
Corporate clients	5,668,835	4,649,633	1,019,202	21.9%
Individuals	1,289,231	975,276	313,955	32.2%
Public entities	127,354	216,815	(89,461)	(41.3%)
	26,384,513	**22,824,846**	**3,559,667**	**15.6%**
Total deposits	**29,499,948**	**26,084,713**	**3,415,235**	**13.1%**
Other liabilities				
Liabilities from securities sold under agreement to repurchase	-	352,153	(352,153)	(100.0%)
Other liabilities, including:	132,650	131,899	751	0.6%
Cash collateral	78,153	101,646	(23,493)	(23.1%)
	132,650	**484,052**	**(351,402)**	**(72.6%)**
Total funding from customers	**29,632,598**	**26,568,765**	**3,063,833**	**11.5%**

3. Interest rates

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

As at 31 December 2014

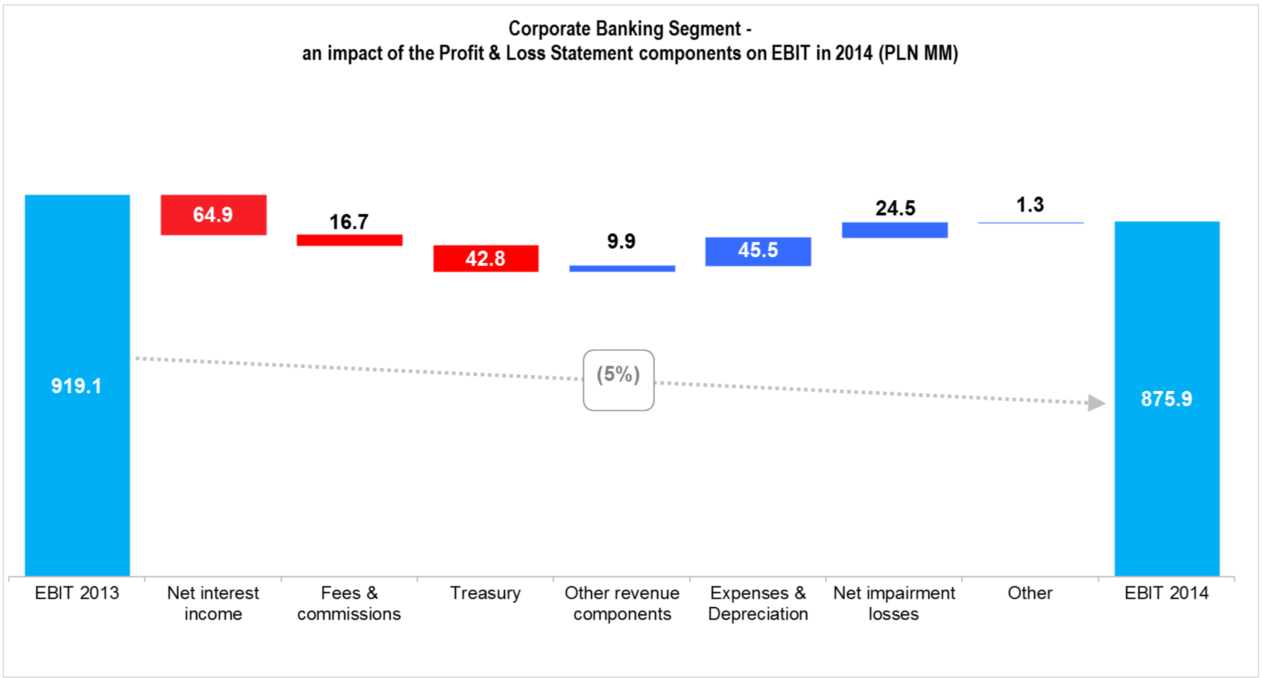
in %	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	2.66	1.39	1.20	12.12	3.60	-
Debt securities	2.35	1.28	2.54	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	1.78	0.35	0.13	1.64	0.15	0.22

As at 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

4. Corporate Banking Segment

4.1 Summary of the segment's results



In 2014 the Institutional Banking segment recorded a drop in the gross profit by PLN 43.2 million, i.e. 4.7%. Compared to the previous year, the gross profit of the Institutional Banking segment in 2014 was affected by:

- Net interest income of PLN 516.1 million compared to PLN 581.0 million in 2013 – a drop by PLN 64.9 million, mainly as a result of lower revenues from the debt securities portfolio (PLN -75.4 million, i.e. 14.2% YoY). Lower net interest income was also recorded in the area of customer activities, which was mainly related to a reduction in base interest rates to a historically low level;

- Net commission income at PLN 279.8 million compared to PLN 296.5 million earned in 2013 – a drop in income by PLN 16.7 million affected brokerage activities (the effect of lower trading on the WSE and a lower number of transactions in the capital market);

- Net income on financial instruments held for trading and on revaluation of PLN 350.7 million compared to PLN 315.6 million in 2013 (increase by PLN 35.1 million as a result of higher income on activities in the interbank market), net gains on hedge accounting at PLN -0.4 million and net income on investment debt securities at PLN 229.9 million compared to PLN 305.3 million in 2013 (a drop by PLN 75.4 million) – these items are presented under "Treasury" in the chart above.

- Overheads and depreciation at PLN -539.8 million compared to PLN -585.3 million in 2013 – a drop by PLN 45.5 million mainly as a result of lower personnel costs.

  The cost to income ratio remained nearly at the same level, since a major drop in the net interest income was recorded, which was partially offset by lower costs;

- Net impairment losses at PLN -1.6 million (compared to PLN -26.1 million in 2013) are the result of stabilization of the credit portfolio managed on the outstanding base and the lower level of net impairments for MMEs and SMEs.

4.2 Institutional Bank

Institutional banking activities of the Bank include comprehensive financial services provided to the largest Polish companies and strategic enterprises with strong growth potential as well as to the largest financial institutions and public sector entities.

At the end of 2014 the number of corporate customers (including strategic customers, global customers and corporate customers) was 7,200, a drop by 4% compared to 2013, when the number of customers totaled 7,500. In the commercial bank (small and medium-sized enterprises, large companies and the public sector), the Bank served 5,000 customers at the end of 2014 (which translates to a drop by 7% compared to 5,400 customers served at the end of 2013).

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

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

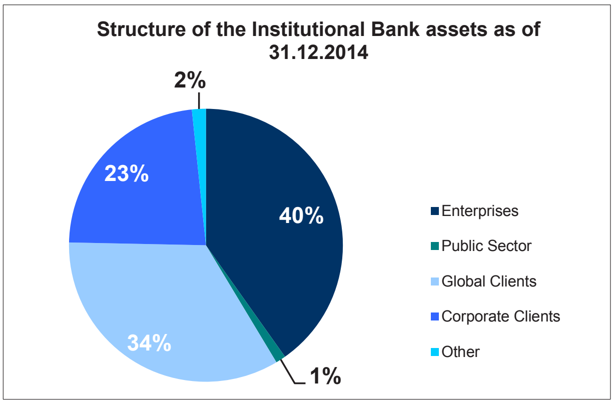
Assets

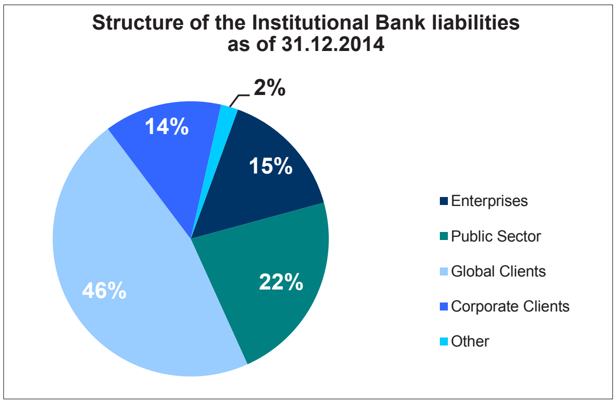
PLN million	31.12.2014	31.12.2013	Change	
			PLN'000	%
Enterprises, including:	4,251	3,403	848	25%
SMEs*	1,683	1,611	72	4%
Large enterprises*	2,568	1,792	776	43%
Public Sector	126	282	(156)	(35%)
Global Clients	3,589	3,655	(66)	(2%)
Corporate Clients	2,435	2,730	(295)	(11%)
Other**	174	105	(69)	(66%)
Total Institutional Bank	**10 575**	**10,175**	**400**	**4%**

Liabilities

PLN million	31.12.2014	31.12.2013	Change	
			PLN'000	%
Enterprises, including:	3,283	3,331	(48)	(1%)
SMEs*	2,187	2,384	(197)	(8%)
Large enterprises*	1,096	947	149	16%
Public Sector	4,859	3,848	1 011	26%
Global Clients	10,041	7,845	2 196	28%
Corporate Clients	2,983	3,404	(421)	(12%)
Other**	434	66	368	558%
Total Institutional Bank	**21,600**	**18,494**	**3 106**	**17%**

** 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.*





Key transactions and successes of the Institutional Bank in 2014:

- As part of the Emerging Market Champions, the Commercial Bank organized a series of five conferences entitled “Business without borders” in Warsaw, Kraków and Katowice. The subject was international business, in particular in the countries of Central Europe. During one of the conferences, heads of Citi Commercial met with customers of the Commercial Bank. From programme inception, customers of the Bank have expressed interest in opening more than 100 accounts in other countries. The main direction for expansion of the Bank’s customers remains Europe;

- As part of financing corporate customers:
  - The Bank arranged bond financing for a company held by the State Treasury and took up a major amount of the bonds (PLN 450 million);
  - As part of a syndicate, the Bank participated in the financing of current debt at EUR 2 billion of customers in the fuel sector, the BHW share in financing is EUR 100 million.
  - In July 2014 the Bank and an international banking consortium signed a revolving loan agreement with a mining sector customer for $2.5 billion, the Bank’s share in the financing is $200 million. This Agreement was signed for 5 years. The Bank acted as the Global Coordinator and Lead Arranger;
  - The Bank financed invoice discounting for a major construction company at PLN 13 million with a prospect of increase to PLN 40 million;
  - The Bank issued 3Y bonds for a financial sector customer, worth PLN 1.4 billion.

- The Bank closed among other things the following transactions with customers in the Global Customers segment:
  - Securitization of the portfolio or mortgage loans and cash loans for one of the leading Polish banks;
  - Call for buy-back of shares related to the acquisition of one of the banks in the Polish market;
  - Issue of 2Y bonds for a financial institution worth PLN 82 million as part of the Bonds Issue Programme managed for that institution.

- In 2014 the Commercial Bank (Enterprises and Public Sector) achieved an increase in customer assets by 25% compared to the end of 2013. Among others, this was affected by the following financing transactions completed in 2014:
  - Bonds Issue Programme for up to PLN 500 million for a wholesaler of motor parts and accessories (first issue of bonds maturing in 5 years was sold to investors in October 2014;
  - An investment loan of PLN 98 million for a producer of power switchgear and control gear;
  - A long-term loan of EUR 10.9 million, a payment loan of PLN 26.7 million and an overdraft of PLN 17.7 million as part of a syndicated loan, where the Bank acted as the Agent, for a manufacturer of other basic organic chemicals;
  - A payment loan of PLN 53 million for a manufacturer of plastic products;
  - A letter of credit for PLN 20 million for a distributor of motor parts;
  - A revolving loan of PLN 28 million for a manufacturer of distilled alcoholic beverages and beer;
  - An investment loan of PLN 16 million, a long-term loan of PLN 8 million and a loan secured in current account at PLN 2.3 million for a manufacturer of other parts and accessories for motor vehicles except motorcycles;
  - An overdraft of EUR 4.34 million and a revolving loan of PLN 20 million for a manufacturer of office and shop furniture;

 - An investment loan of PLN 20.7 million for an organizer of fairs, exhibitions and conferences.

- Customer acquisition: in the Commercial Bank, 455 new customers were acquired in 2014, including 47 Large Enterprises, 312 Small and Medium-sized Enterprises, and 96 Public Sector Customers – in 2014 the Bank won a tender to provide services to the Town of Jaworzno. Currently Citi Handlowy is the leader in providing services to the Public Sector in the market, with customers such as the cities and towns of Warsaw, Tarnów, Wałbrzych, Inowrocław, Olsztyn, Elbląg, Kołobrzeg, Jaworzno and many other units of the Public Sector.

4.3 Treasury

In 2014 the Bank maintained a strong position in the market of foreign exchange transactions with institutional customers, achieving a 2% increase in the volume of foreign exchange transactions compared to 2013. The increase was recorded for transactions closed in a traditional fashion as well as through the CitiFX Pulse platform, which proves that cash and FX position management solutions offered by the Bank address the expectations of the most demanding customers.

CitiFX Pulse, an online FX platform, remained very popular: in 2014, 74% of FX transactions were concluded through this platform, while the volume of electronic transactions grew by 8% YoY.In February 2014, Citi Handlowy once again received the Treasury BondSpot Poland award for its activity in fixing sessions and for the highest turnover in 2013.

In 2014, for the third year in a row, the Bank ranked first in the prestigious ranking of the Ministry of Finance as the Treasury Securities Dealer in 2014. In performing this function, the Bank cooperates with the Ministry of Finance in order to build a transparent, liquid and effective market in Treasury securities. The top position consolidated the position of the Bank as the leader in quotations in the secondary market and demonstrated the active nature of the Bank in supporting liquidity and contributing to the development of the Polish bonds market.

In 2014 the Bank participated in a number of Treasury transactions: it was a member of the banking consortium which signed the bonds issue programme for a power sector customer for PLN 7 billion, under which the Bank extended a guarantee for taking up 10% of the amount of the bonds being issued.

4.4 Transaction services

The transactional banking offer covers financial management products (deposits and current accounts, liquidity management solutions, microdeposits, e-banking), card products, payments and receivables (Direct Debit, Speedcollect), cash products, EU advisory, trade finance products.

Due to its rich history of serving key Polish and international customers, as well as a constantly expanding offer, the Bank is the leader in many market segments. The Bank processes the highest number of direct debit transactions in Poland – the market share is 40%. The Bank is the pioneer in the prepaid card market. Microdeposits – a product dedicated for mass deposits is the leading solution in the market, with a market share of nearly 30%. Liquidity management products offered by the Bank are extremely advanced products

The strong position of Citi Handlowy in the transactional banking market was noted by customers in the Euromoney Cash Management Survey. In this prestigious survey, the Bank ranked first in 2014.

Priorities of the transactional banking development in 2014 included:

- Customer activisation and increasing the share-of-wallet (participation in the customer portfolio);
- Development and commercialization of e-banking applications;
- Expansion in trade finance.

Client activation and *share-of-wallet* increase

In 2014 the Bank pursued acquisition actions in the SME segment. During meetings, experts of the Bank presented customers with the options of process optimization, effectiveness improvement and increase in savings as a result of applying fund management and trade financing solutions. At the same time, the Bank aimed at strengthening relations with current corporate customers. Knowledge of individual customer needs enables the Bank to offer additional services that are personalized for the individual customer and closely matched to their needs. Last year, the Bank held over 2,000 meetings with customers in this segment and thus maintained a high level of sales activity in this market segment.

Development and commercialization of the e-banking application

The goal of the Bank is to develop technological solutions, which offer rapid customer service and adapt to the dynamically changing environment.

A major event of 2014 was enabling customers to place instructions via a dedicated tablet application. Thus, customers of the Bank were given access to another remote channel for placing instructions and obtaining the latest information on account balances, after the browser-based mobile access launched in 2013.

In the past year, the Bank's offer also included separate client-side user rights management in the electronic banking system CitiDirect. Customers using this solution to communicate with the Bank only in terms of the necessary steps. Citi Trade Portal deployed at the end of 2012 is still being upgraded.

In 2014 the Portal introduced support for supplier financing programmes, Paylink and Trade Credit, the process of customer migration to the new platform was completed as well.

Trade finance expansion

High-class technological facilities and a wide product range allowed the Bank to achieve a 24% increase year on year in terms of the average balance of trade receivables financed. The highest activity was observed in the context of classical supplier finance programmes and the reverse factoring scheme.

Deposits and current accounts

A current account enables its holder to access the full product range offered by the Bank. A key element of the Bank's strategy is its focus on acquiring and serving operating accounts: bank accounts used to process the key operating cash flows of account holders.

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

Liquidity management products

Liquidity management structures are advanced instruments that optimize cash flows for a single customer or within a capital group. The liquidity management products offered by the Bank make it possible to ensure optimized management 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;
- actual cash pooling;
- notional cash pooling;
- net balance.

These liquidity management structures can reduce the overall debt and its servicing costs while maintaining liquidity, and allow customers to streamline some operational processes.

Electronic banking

The Bank offers its corporate customers the CitiDirect electronic banking platform, and the CitiDirect EB application, addressed mainly to SME customers. The number of transactions processed in the electronic banking system remains high. The volume of transactions processed in 2014 totaled 27.8 million compared to 26 million transactions in the previous year. The number of active customers using the electronic banking system at the end of the year 2014 was nearly 4,500. The share of bank account statements delivered to customers only in electronic form remained high and stable at 90%, similar to 2013.

One of the most important events in the area of electronic banking for CitiDirect customers was the launch of a new access channel in the form of a tablet-dedicated application, with the support for the three most popular operating systems (iOS, Android and Windows). A modern and easy to use interface facilitates fast authorization or release of corporate payments, as well as obtaining information on current balances in customer accounts, also those held by any Citigroup branch in the world. Since the service was launched, customers have executed more than 12,000 transactions with the new application.

In H2 2014, further enhancements were introduced for mobile access, such as the new, more legible layout and improvements in searching for transactions or balance information. With these changes, the mobile version of CitiDirect is even more convenient and intuitive to use. The total number of transactions executed in mobile systems of the Bank exceeded 100,000 and the number of customers to whom this form of service was provided was 3,600.

In addition, last year customers were offered an option to manage user rights on their own in the CitiDirect electronic banking system. With this solution, the number of contact required with the Bank to assign system rights is limited only to necessary actions related to the security of the services being provided.

In addition, certain improvements to the main electronic banking system have been introduced, such as:

- the new look of the module used to exchange files between the Bank and corporate customers in the CitiDirect service;
- a series of improvements which facilitate everyday work with a system dedicated for SME customers;
- a new SEPA international payment form, offered on the corporate customer website and the SME customer website;
- new functions providing fast access to various CitiDirect functionalities from the new system interface on the CitiDirect EB website, implemented over the past year.

In 2014 the Bank continued to develop the trade finance and support platform, Citi Trade Portal. The platform was provided with new functionalities offered to customers, such as the support for Supplier Finance, Paylink and Trade Credit. This means that in addition to the aforementioned services, Citi Trade Portal also supports classic factoring, reverse factoring, debt discounting, invoice collection; in the area of trade products, the system supports import and export L/C, bank guaranties, import and export documentary collection.

Next year further commercialization of mobile solutions and rights management on the customer side is expected among Bank customers.

MicroDeposits

The Microdeposits product is used by institutions and entities which accept cash deposits from various payers and are obliged to return them together with accrued interest. The Microdeposits product also supports calculation of historical interest value, i.e., allocation of interest amounts to respective past deposits placed by the payer.

In 2014 the Bank focused its actions on commercialization of the Microdeposits product. Main actions were focused on the changes proposed by the Ministry of Justice and aimed at unifying systems which support the reporting entities. In H1 2014, the Bank initiated close cooperation with customers in order to migrate deposits collected by courts to a new financial and accounting system. A module custom-made according to the requirements of the Ministry of Justice is an integral part of the system. The module uses state-of-the-art technologies available at the Bank including online communication based on WebServices.

Following the strategy aimed at the development of Microdeposits, in 2014 the Bank won new customers, as a result of which the total balances for the Microdeposits product grew by more than 25% compared to 2013. As a result, the Bank became the leader in providing support to entities which report to the Ministry of Justice, offering the best solution in the Polish market.

Receivables processing: SpeedCollect, Direct Debit and Cash Products

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of mass payments. In 2014, the Bank remained one of the top leaders in Poland's market in terms of volumes of processed transactions. The number of transactions was at same level as in 2013.

Direct Debit The Bank provides its customers with comprehensive debit processing. The direct debit market is a segment of such services. In 2014 the Bank processed a comparable number of transactions as in 2013 thus clearing the highest number of transactions as a creditor bank in Poland, maintaining a record 40% market share.

Cash products. Despite the growing popularity of electronic settlement channels, the majority of transactions in Poland is still made with cash and accounts for approx. 80% of transactions. Citi Handlowy is one of the leading banks in terms of transferring cash to the National Bank of Poland. To meet customer demand, the Bank provides comprehensive solutions which support cash trading.

A vast majority of over-the-counter deposits are closed, i.e., they are delivered to the Bank in sealed packages and counted without the customer being present.

The Bank offers over-the-counter deposits also in different variants, tailored to the expectations of customers. In addition to standard closed deposits, the following solutions are also available:

- Open over-the-counter deposits made in Polish Post outlets across Poland.
- *Low Cost Cash,* i.e., a deposit in ordered bank bills, with specific quality conditions fulfilled;
- Purchase of safe envelopes for depositing cash;
- Electronic document transfer;
- *SpeedCash* (SpeedCollect in over-the-counter deposits) - the Bank provides the customers with the option to make cash payments to virtual accounts. As a result, information necessary for proper identification of the payment is included directly in the account number, which minimizes the risk of incorrect (non-identifiable) receipts.

In 2014 the Bank continued to develop alternative solutions for corporate customers by opening new partner locations which offer basic banking products. Direct access of customers to the Bank has been strengthened through a partnership with Poczta Polska S.A. Such an offer is dedicated to the towns where the Bank does not have a branch.

Foreign bank transfers

The Bank steadily strengthens its position on the foreign transfer market as demonstrated by a stable 10% growth of the volume of foreign currency transfers compared to the previous year. Transactional activity of customer is improving thanks to the competitive products offer based on the Citi Group's global clearing network and a broad range of supported currencies. The Bank supports the needs of customers who plan to expand to international markets, by supporting settlements in exotic currencies, such as Indian rupees, Chinese yuans, Chilean pesos or Brazilian reals. For customer comfort, the Bank has introduced measures to optimize the process of placing instructions, in particular dedicated formats which facilitate SEPA transfers.

Local bank transfers

In 2014 a new settlement service was launched for customers who are members of the Warsaw Commodity Clearing House, and who participate in settlements of the Polish Power Exchange (TGE). As part of the New Settlement Model launched by the Warsaw Commodity Clearing House (IRGiT) in August 2014, the Bank may, as one of eight certified banks, act as the House Member Payer Bank and provide comprehensive service in the aspect of transaction settlements on the TGE, ensuring the highest standards of security. By using this service, customers are able to consolidate their liquidity in the Bank and optimize the structure of their accounts.

In 2014, the volume of domestic payments increased by 4.7%, while December 2014 was a record month in history, with more than 2.7 million outgoing transactions. The Bank offers comprehensive services in three settlement systems: Elixir which supports standard payments, Sorbnet for high amount payments and the innovative Express Elixir system for interbank instant payments.

Electronic Postal Transfers

In 2014 the Bank expanded cooperation with Poczta Polska S.A. in the area of cash trading, by allowing corporate customers to make cash withdrawals in a wide network of post offices. This solution complements Electronic Post Office Money Transfers, a product addressed to corporate customers who pay out cash to individuals. In 2014 the Bank cooperated with two postal operators in this field.

Card products

The Bank offers a wide selection of business cards. These include Charge, Guaranteed or Debit Cards used to pay for employee business expenses as well as Prepaid Cards used by companies as holiday vouchers, for sales support or as part of Loyalty Plans.

Compared to 2013, the Bank recorded significant growth in the number and value of cashless transactions by 7% and 9% respectively.

The implementation and consistent performance of the strategy of tighter price discipline resulted in an increase in revenues per card by more than 3% at the end of 2014 compared to the previous year, despite a considerable drop in the Interchange fee for domestic transactions.

EU-oriented advisory services

In 2014, the EU Office prepared the Bank's strategy for the new financial perspective 2014-2020 where banks will be important partners in the distribution of European funds in the form of repayable instruments and in financing of investments co-financed with subsidies.

In 2014, the EU Office performed functions related to an agreement signed by the Bank with Kreditanstalt für Wiederaufbau concerning distribution of funds under energy efficiency programmes among local government units and Small and Medium-sized Enterprises. In 2014 the Bank signed 90 energy loan agreements with customers for a total amount of PLN 101.5 million.

In December 2014 Citi Handlowy and the German KfW (Kreditanstalt für Wiederaufbau) signed an agreement of cooperation on the ELENA Programme (European Local Energy Assistance). Under the agreement, our Bank will obtain funds to support investments which contribute to environmental protection. The obtained lending capital will be used to finance projects aimed at improving energy efficiency, implemented by local government units or other entities which fulfil statutory duties of local government units.

Trade finance products

In 2014 trade finance products were a major link in the business development strategy for the large companies and SME sectors. In this area, the Bank achieved an increase of the average balance of financed trade debt by 24% YoY. The greatest growth rate was recorded for supplier financing programmes, particular financing based on reverse factoring.

For the entire year, the Bank maintained a stable level of assets in the area of trade finance, diversified with all types of financing, both short-term such as the supplier financing or the debt discount as well as long-term financing with the support of the KUKE insurance.

An important element of development of the Bank's offering, and thus strengthening of the position in the area of trade finance services was completing the launching of support for all trade finance products on the Citi Trade Portal electronic platform. As a result, today all documentary products, such as the export and import L/C, bank guarantee and collection, as well as the financing solution are supported by one of the most advanced electronic platforms.

In 2014 the Bank continued to participate in the largest financing transaction which involved oil stocks, continued the development of the Polish supplier financing programme as part of local and regional programmes, participated in several major transactions involving bank guaranties and developed further financing programmes, mostly for SME customers based on trade credit.

4.4.1 Custody services

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

Citi Handlowy maintained its position as a market leader among custodian banks in Poland. The Bank provides custody services for domestic and international institutional investors and custodian bank services for domestic pension and investment funds.

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

In the reporting period, the Bank retained its leading position in clearing transactions involving securities for remote members of the Warsaw Stock Exchange and BondSpot S.A. In addition, the Bank participated in the settlement of transactions executed by institutional customers on the electronic debt securities trading platform operating under the trade name of Treasury BondSpot Poland, organized by BondSpot S.A.

The Bank developed the offering of collective accounts for eligible international entities, winning new customers and consolidating the dominating position in the segment of providing service to international financial intermediaries.

In August, the Bank started to offer customers services of transaction clearing in parts, and securities netting.

As at 31 December 2014, the Bank managed more than 10,000 securities accounts.

At the same time, the Bank acted as the custodian for five open-end pension funds: MetLife OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE, Nordea OFE; five voluntary pension funds: MetLife DFE, Nordea DFE, ING DFE, DFE Pekao, Generali DFE; two employee pension funds – Pracowniczy Fundusz Emerytalny PZU, "Słoneczna Jesień" and Pracowniczy Fundusz Emerytalny Orange Polska.

The Bank was also a custodian bank 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 2014, the Bank continued its activities aimed at improvement of the legislation regulating the securities market. A representative of the Bank was the Chair of the Bureau of Custodian Banks at the Polish Bank Association ("Council") for the fourth consecutive term of office. During the reporting period, the Council continued works relating clarification of doubts arising in connection with the performance of some duties of an investment fund and pension fund custodian, including implementation of requirements of the European Union AIFMD and UCITS V Directives to the Polish legal system. The Council participated in discussions on changes in legislation regarding introduction of the so-called uniform banking licence. Through the Council, representatives of the Bank took active part in works of the Financial Market Development Council at the Minister of Finance. The Council, in cooperation with the Brokerage House Chamber, prepared and implemented the new standard for bank statement from agreement cards based on the net settlement and the standard of operations of brokerage houses in respect of documentary requirements related to services offered to customers of custodian banks as in connection with: an offer to transfer shares, a subscription for a new issue of shares in exercise of the subscription right and the public call for the transfer of shares.

The Council was actively involved in the evaluation of other draft legal acts related to operations of domestic custodian banks. Based on the Bank's 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. and the Warsaw Stock Exchange participated in consultations on the implementation of new solutions in the Polish capital market through working groups established at the Polish Bank Association, works of the market working groups on the development of standards for transaction settlement and pre-matching, in particular the National Market Practice Group appointed by KDPW S.A., as well as partial settlement and the so-called directional netting.

4.5 Brokerage Activity

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

In 2014, DMBH brokered session transactions representing 13.3% of equities traded on the secondary market and once again ranked first in the market. The value of session transactions executed via DMBH in the equities market on the WSE amounted to PLN 54.5 billion and fell by 2.7% compared to the previous year, while trading on the WSE decreased by 6.7% YoY.

The activity of individual customers using the new transactional platform CitiFX Pro increased significantly in 2014. The platform allows users to buy and sell shares and ETF units traded on the biggest foreign exchanges as well as OTC FX instruments using leverage. The functionalities which are very popular with customers include the option of transferring and actively managing held portfolios of foreign stocks. Furthermore, foreign currency accounts are now on offer and allow customers to use available cash in foreign currencies for investments without currency conversion, which mitigates the FX risk of foreign investments.

The number of investment accounts kept by DMBH at the end of 2014 was 9,700 and increased by 7% compared to 2013. The number of accounts increased due to a steady growth in the number of brokerage service agreements for forex and foreign financial instruments on the CitiFX Pro platform.

At the end of 2014, DMBH was the market maker for 19 companies listed on the WSE and for futures on stocks of the most liquid companies as one of the most active market makers on the WSE in 2014.

The weaker conditions on the domestic IPO market largely impacted the activity of DMBH on that market. In 2014, DMBH closed the following deals on the capital market:

- Legg Mason Akcji Skoncentrowany FIZ – DMBH was the Offering Broker in the public offer of PLN 7.7 million Series E Investment Certificate (March 2014);
- Alior Bank S.A. – DMBH was the Sole Bookrunner in an accelerated sale of a PLN 101 million stake held by LuxCo 82 s.a.r.l (March 2014);
- Talanx AG – DMBH was the investment firm intermediary in the admission of the company's share to trading on the Warsaw Stock Exchange (April 2014);
- BNP Paribas Bank Polska S.A. – DMBH was the Sole Coordinator, Joint Bookrunner and Offering Broker in the PLN 231 million secondary public offering (May 2014).

- VB Leasing Polska S.A. - DMBH was the intermediary in a non-public transaction of the transfer of shares of the Company between VB Leasing International and Getin Holding Gm. (September 2014);
- Bank Gospodarki Żywnościowej S.A. ("BGŻ S.A.") - DMBH was the intermediary in the call for shares of BGŻ S.A. to BNP Paribas S.A., the transaction value of PLN 4.010 billion.

Summary financial data as at 31 December 2014*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2014
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	424,698	106,511	15,582

**pre-audit data*

4.6 Leasing

In accordance with the decision of the Bank's Management Board to reduce the scope of leasing activities of the Bank's Group, taken in March 2013, the scope of activities of Handlowy-Leasing Sp. z o.o. ("Handlowy-Leasing", "HL") was limited only to handling lease agreements entered into by 30 April 2013. No new lease agreements were concluded after that date by HL. The goal of HL is to continue performance of existing agreements, maintaining the service quality and ensuring process continuity and the economic efficiency in its business.

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

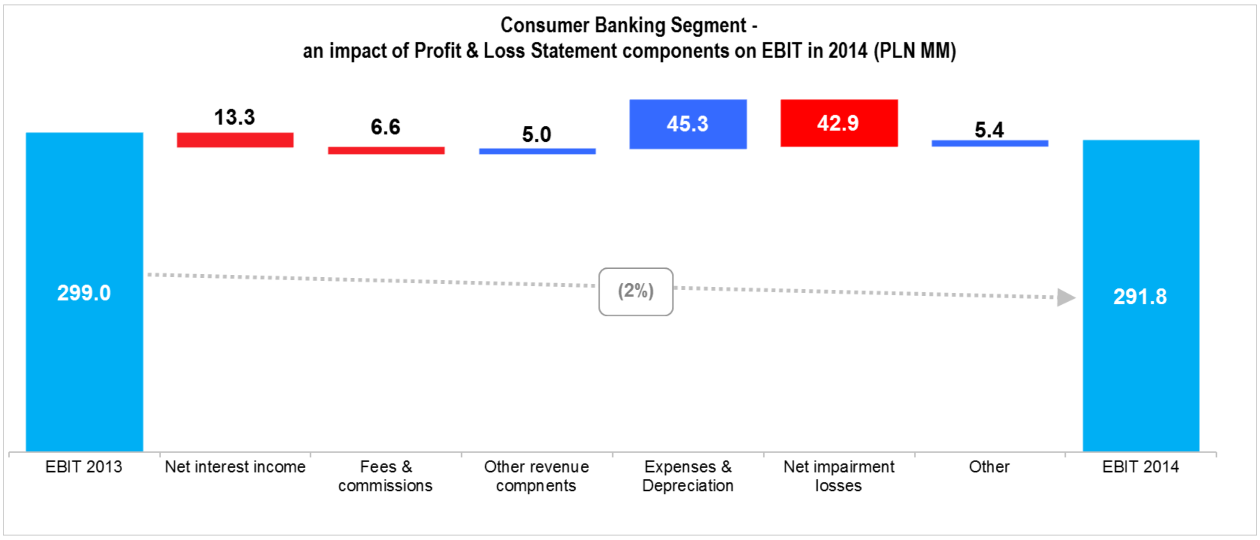
Summary financial data as at 31 December 2014*

Company	Headquarters	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2014
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	264,580	139,765	4,566

**pre-audit data*

5. Consumer Banking Segment

5.1 Summary of the segment's results



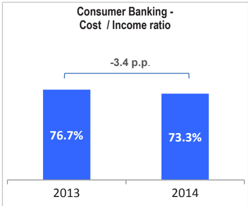
In 2014 the Consumer Bank recorded a drop in the gross profit by PLN 7.2 million, i.e. 2.4%. Compared to the previous year, the gross profit of the Consumer Bank in 2014 was affected by:

- Net interest income of PLN 647.8 million compared to PLN 661.1 million in 2013 – a drop by PLN 13.3 million, i.e. 2.0% mainly as a result of lower revenues on interest caused by another drop in interest on lending products following market changes in interest rates, which was partly compensated by the drop in interest costs despite a considerable increase in the deposits balance (by PLN 0.8 billion, i.e. 10.9%);

- Net commission income at PLN 339.1 million compared to PLN 345.8 million earned in 2013 – a drop by PLN 6.6 million i.e. 1.9% mostly as a result of lower commissions on credit and debit cards (a decrease in the interchange fee to 0.5%). On the other hand, in 2014 higher revenues from the sale of investment and insurance products were earned compared to 2013 (by PLN 18.7 million, i.e. 20.5%), mostly as a result of greater customer interest in investment funds and investment products related to funds;

- Other components of revenues include the net income on financial instruments held for trading and on revaluation (a drop by PLN 1.9 million), dividend income (an increase by PLN 0.6 million) and net other operating income (an increase by PLN 6.3 million);

- Overheads and depreciation at PLN 734.1 million compared to PLN 779.3 million in 2013 – a drop by PLN 45.3 million i.e. 5.8%, mainly affected by the decline in employee costs, partially offset with higher depreciation by PLN 10.6 million among others related to expansion of the retail product offering;



- A reversal of net impairments at PLN 19.4 million in 2014 compared to PLN 62.3 million of net impairment reversal in 2013. The reduction in net impairment reversal by PLN 42.9 million is the result of gradual stabilization of the portfolio quality in 2014, which generates lower dissolution of the IBNR than in 2013 and the dwindling expected recoveries from the portfolio with the impairment and the increase in the portfolio average age. In Q4 2014 part of retail exposures was sold. The sale involved receivables related to cash loans and credit cards with impairment at PLN 161.6 million for PLN 34.7 million.

5.2 Selected business data

	2014	2013	Change PLN '000	%
Number of individual customers	724,6	782,3	(57,7)	(7,4%)
Number of current accounts, including:	477,7	515,0	(37,3)	(7,2%)
number of operating accounts	315,5	164,1	151,4	92,3%
Number of operating accounts newly acquired in the period	68,0	70,7	(1,2)	(1,8%)
Number of savings accounts	168,6	180,4	(11,8)	(6,5%)
Number of credit cards, including:	732,5	773,3	(40,8)	(5,3%)
co-branded cards	428,4	465,0	(36,6)	(7,9%)
Number of active credit cards	661,5	691,2	(29,7)	(4,3%)
Number of debit cards, including:	305,6	344,8	(39,2)	(11,4%)
PayPass cards	286,8	316,8	(30,0)	(9,5%)

5.3 Key business achievements

Credit cards

At the end of 2014 the number of credit cards was 732,500 and was 40,800 lower compared to the same period of the previous year. The debt balance for credit cards was PLN 2.1 billion at the end of 2014, i.e. 6.0% higher compared to the end of 2013. As a result, the Bank strengthened its leading position in the credit cards market in terms of the value of credit on credit cards, with the market share of 17.6% at the end of 2014 compared to 16.8% a year before. The Bank also strengthened its leading position in terms of the value of transactions made with credit cards – based on figures available at the end of Q3 2014, the share of the Bank was 23% against 20.9% compared to the same period of the previous year.

In 2014 the Bank rationalized the credit card product offering and provided the customers with more flexible solutions. As part of these actions, in H1 2014 the Bank terminated cooperation with Wizz Air Hungary Ltd., the partner of Citibank World WizzAir credit card. At the end of 2014 the Bank also decided to terminate cooperation with Polskie Linie Lotnicze LOT S.A. and Miles & More International GmbH, putting an end to the mile accumulation option in the Loyalty Plan for transactions made with Citibank World Elite MasterCard Ultime, Silver, Gold and Platinum credit cards.

In October 2014 the offering for the travelling customers was supplemented by a new product, Citibank PremierMiles credit card. This product provides access to a unique Citi loyalty plan, with 11 partnering airlines, such as British Airways, AirFrance, KLM, Singapore Airlines, Qatar Airlines, Delta and 3 international hotel chains.

Citibank PremierMiles cardholders enjoy discounts for travel-related shopping and may use their miles for air tickets and hotel stays, also in airlines which are not partners of the programme. The card offers greater flexibility and does not bind the cardholder to one airline only.

At this year's Central European Electronic Card international conference, Citibank PremierMiles credit card was named the 2015 best product.

Bank Accounts

Current accounts

The number of current accounts of individual customers decreased by 7% compared to 2013 and at the end of 2014 was 478,000 (515,000 in 2013), including 298,000 accounts in zlotys (337,000 in 2013) and 179,000 foreign currency accounts (178,000 in 2013). The drop in the number of accounts was the result of actions undertaken in Q4 2014 aimed at closing deposit relations unused by customers. As a result, the accounts of 20,000 customers were closed in December.

At the end of 2014 the total balance in current accounts was nearly PLN 3.1 billion, while at the end of 2013 it was PLN 2.7 billion.

Savings accounts

At the end of 2014, the number of savings accounts was 169,000 compared to 180,000 accounts in 2013 with a balance of PLN 3.2 billion at the end of 2014. Similar to current accounts, the decrease in the number of savings accounts was driven by the closing of inactive accounts.

Citigold and Citi Priority

To implement assumptions behind the Bank's strategy, which assumes development of quality portfolio of affluent and very affluent customers, in 2014 two major changes were introduced to the pricing and product offer of the Bank:

- in January 2014 the Bank changed the criterion which must be met by the customer to qualify for free keeping of a Citigold personal account, namely the balance maintained in the amount of at least PLN 50,000;
- in July 2014 the Bank introduced a new product offering addressed to affluent customers, Citi Priority. The criterion which must be met to qualify for free keeping of a personal account is receipts to the account in the amount of at least PLN 5,000 with an active credit product in the Bank or keeping a balance of at least PLN 30,000.

Both Citigold and Citi Priority customers receive a dedicated card for their accounts, free ATMs in the world, domestic online transfers, standing orders, direct debits, payments made to the account in the Euronet network, a contactless sticker.

The Bank took a number of actions to support acquisition of customers from the Citigold and Citi Priority segment, such as online campaigns, acquisition and image campaigns, promotional offers for term deposits and savings accounts, or the Customer Referral Programme addressed to Citigold customers.

In January 2014, as part of extension of the global banking offer, the Bank introduced payments in retail outlets without conversion from GBP and USD accounts, besides the support for EUR payments, which had been available since 2008.

Since June 2014, selected Citi Handlowy branches support ATM withdrawals in EUR or USD. Ultimately, this service will be offered in each SMART branch and Citigold branches.

An important element of the product proposal for CitiPriority and Citigold customers was completion of the FX ecosystem development, which makes Citi Handlowy stand out among other banks.

Since October 2014 Citigold customers have been offered competitive FX rates, comparable to the rates in online exchange bureaus. Combined with the Double Currency Investment offer that is being developed all year round and is offered to customers by the FX Specialist in each Citigold branch, this is a unique offering in the market.

Credit and Lending Products

Cash loans

The cash loan portfolio stood at PLN 2.5 billion at the end of 2014, which represented an increase of 15% compared to the end of 2013.

In 2014, the Bank recorded a considerable increase in lending in terms of cash loans, and achieved a record result compared to the same period of 2013. The total sales of unsecured loans, including cash loans to credit cardholders, was PLN 2.0 billion compared to PLN 1.3 billion in 2013.

In 2014, the sales model of cash loans changed in accordance with the Bank's strategy. The Bank promoted remote processes such as the telephone process or online platform of the Bank as well as simple processes of direct sales, among others in modern Smart branches. A multi-product application was introduced to allow the customers to apply for several products at the same time. At the end of the year, the level of sales in remote processes reached 34% of the cash loan sales.

Mortgage products

The mortgage loan portfolio stood at PLN 1.2 billion at the end of 2014, which represented an increase of 16% compared to the end of 2013. Sales of mortgage products in 2014 totaled PLN 280 million, an 18% increase compared to 2013.

Acquisition of new loans in the area of mortgage products was focused on the CitiGold segment. The share of this segment in the sales of new products was kept at a stable level of over 50%.

Investment and Insurance Products

Investment Products

In order to add new investment opportunities to its product offer in 2014, the Bank introduced 32 open investment funds from local investment fund companies and foreign investment firms. These changes extended the debt (9 fund) and equity (23 funds) product classes. At the end of 2014, the Bank offered 155 funds (including 63 domestic funds and 92 foreign funds) to its customers.

In structured products, the Bank further developed its offer of structured bonds and maintained its competitive market position in this segment. The Bank offered 67 subscriptions for structured bonds addressed to CitiGold and CitiGold Select customers in 2014. Structured bonds were denominated in Polish zlotys (59 subscriptions), US dollars (5 subscriptions) and euro (3 subscriptions).

90% of bonds maturing in 2014 earned profits for customers, ranging from 1% to 15.0% per year.

With customer interest in corporate and government bonds, the Bank participated in transactions with customers in Treasury bonds denominated in different currencies and in corporate bonds not admitted to public trading in Poland.

In 2014 the Bank enhanced customer access to bi-currency investments and offered professional support from a team of FX market specialists available in branches of the Bank for Gold and Gold Select customers.

In collaboration with Dom Maklerski Bank Handlowego S.A. ("DMBH"), as part of the service of taking and transmitting orders, the Bank provided its customers with access to 10 issues of investment certificates for closed-end investment funds.

In September 2014, the brokerage service offer for the Bank's customers was expanded by investment possibilities in more than 20 key stock exchange markets with DMBH.

At the end of 2014 total funds managed in investment grade products (bi-currency investments and insurance products) purchased by retail customers through the Bank were 16.8% higher than at the end of 2013.

This increase mainly pertained to foreign investment funds, structured bonds, funds in instruments on brokerage accounts kept by DMBH and bonds (mainly treasury bonds).

The Bank implemented an electronic version of the “Portfolio Analysis” available through Citibank online, which provides customers with a comprehensive view of deposit products and details on investment products and investment-grade and savings insurance products.

In H1 2014 the Bank enhanced its investment advisory offer by introducing the EUR and USD denominated fund service, among others.

Insurance Products

In insurance products, the Bank continued initiatives aimed at growing the sales of insurance and enhancing the insurance offer in 2014.

The Bank introduced changes to insurance products for cardholders related to credit debt, CreditShield and CreditShield Plus, to increase the scope of insurance and benefits at the same as insurance rates.

The Bank also enhanced the offer of regular savings and investment products. In February 2014 the Bank implemented a modified unit-linked life insurance with a regular premium, based on parameters more attractive to customers. The product was offered until 1 December 2014.

In collaboration with PZU Życie S.A., the Bank offered 2 subscriptions for individual unit-linked life insurance products (embedded derivatives life and endowment insurance) in 2014.

6. Development of distribution channels

6.1 Branch network

Smart Banking Ecosystem

After the opening of the first branch of the Smart in Katowice in September 2013, the Bank continued the development of a network of modern branches throughout 2014. During this period, a total of 12 new Smart branches were opened, including 4 in Warsaw, 2 in Wroclaw, and one branch in Poznan, Gdynia, Gdansk, Krakow and Katowice.

Seven new smart branches are located in popular shopping malls in major Polish cities, 3 other establishments that street. One of them, except for part of the Smart, it also has a separate area dedicated to supporting Gold wealthy clients.

At the end of 2014 the Smart Banking Ecosystem extended to 12 locations of differing format and space, from a 50 meter branch in the Warsaw Atrium Targówek, to over 180 meter branch located in the historic Kameleon Department Store in Wrocław. All the locations have been equipped with modern technological equipment, such as large screens displaying market information and latest promotional offers, interactive screens presenting the product offering, special discounts from local partners or benefit calculators, as well as tablets and touchscreens for self-service or applying for bank products online.

A common feature of all Smart locations is their adaptation to the lifestyle and needs of contemporary customers by placing them in the most popular and accessible urban locations as well as long opening hours (even 7 days a week, 11 hours a day). Special benefits have been prepared for customers, such as shopping vouchers which can be used at partner shops, exceptional product offers and dedicated discounts from Discount Plan Partners located in a shopping gallery or near the Bank’s branch. The Bank issues a debit or credit card during a single visit to the branch, and with simple and intuitive online application forms available from Smart branches only, customers may use the promotional offers within a manner of minutes.

Special product offers, dedicated marketing, attractive location and longer opening hours of Smart branches resulted in the improvement of many ratios used to assess effectiveness of retail branches of Citi Handlowy. Average credit card acquisition in a Smart branch is approx. 10 times higher than in a traditional branch, and Citi Priority personal account acquisition is approx. 4 times higher. In addition, the share of newly acquired customers in total sales of a branch grew from 12% to 60% on average. Another important indicator is customer satisfaction measured with the NPS (Net Promoter Score) – the NPS for Smart branches is on average 10 pp higher. Such changes have been stimulated by the interior design of branches, without traditional desks and cash desks, instead oriented towards more open and partner-like customer service.

6.2 Changes to the branch network

At the end of 2014, the network of Bank branches consisted of 44 branches. In the course of the optimization process and to implement concepts of new banking, the Bank terminated operational activity of selected branches in Bydgoszcz, Gdynia, Gdańsk, Gorzów Wielkopolski, Katowice, Konin, Kraków, Łódź, Olsztyn, Opole, Poznań, Radom, Rzeszów, Szczecin, Warsaw and Wrocław.

The Bank also continued design works to improve CitiGold customer service quality in dedicated branches. The changes were aimed at improving the sales effectiveness of products offered by the Bank, by changing the management model and modifying the sales coordination model. As part of such activities, expansion of the Citigold branch in Kraków at ul. Karmelicka 7 was completed. Current functionalities fully support performance of goals set in the new strategy of CitiGold segment development.

As part of the optimization, one of the branches has ceased to provide service to retail customers; currently the branch deals with corporate customers only.

Number of branches (at the end of period)

	December 31, 2014	December 31, 2013	Change
Number of branches (at the end of period):	**44**	**65**	**(21)**
- HUB Gold	8	11	(3)
- Smart Hub Gold	1	-	1
- Blue	21	50	(29)
- Investment Center	2	2	-
- Smart Branches	11	2	9
- Corporation Branches	1	-	1
Pozostałe punkty sprzedaży/obsługi klienta: Airports			
Financial agnets (Open Finance, Expander and other)	0	274	(274)
Airports	4	4	--
Shopping malls and cinemas	21	70	(49)
Cash points (Billbirs and Brinks)	4	11	(7)
Own ATMs	71	93	(22)

6.3 Internet and telephone banking

Mobile banking

At the end of 2014 the number of active users of Citi Mobile banking, namely users who accessed mobile banking at least once a month was 66,000, which is an increase by 29% compared to the end of 2013. At the end of 2014 the share of active users of mobile banking in the total portfolio of Citi Handlowy customers slightly exceeded 9%, which is an increase by 2 p.p. compared to the same period of 2013.

Since Citi Mobile mobile banking service was launched in May 2010, the application was downloaded and logged into once by at least 180,000 users.

In 2014 a single Citi Mobile application functionality, which supports fast payments for VAT invoices by scanning 2D codes (Fotokasa), was used by the customers to complete 16,000 transactions for a total amount of PLN 2.5 million.

Online Banking

As a result of actions aimed at popularizing online banking as the channel of contact with the Bank and distribution of banking products, the number of active Citibank Online users, namely users who logged into on-line transactional website at least once in a month using their PC was 332,000 at the end of 2014, an increase by 2% compared to the end of 2013.

At the same time, in 2014 an increase in the number of active digital users was recorded, namely customers who used online banking at least once a month (Citibank Online or Citi Mobile mobile banking and Citi Handlowy for iPad) regardless of the device type (mobile or PC). At the end of 2014 their number was 340,000, an increase by 3% compared to the same period of 2013.

The share of active digital users in the total portfolio of the Bank's customers at the end of 2014 was 48%, i.e. grew by 7 p.p. compared to the level achieved at the end of 2013.

Along with the growing popularity of electronic banking, one of the Bank's priorities is fast improvement in online service standards, which in 2014 resulted in implementation of the project of fast response to an online question (24h).

The share of transactions concluded through online or mobile banking channels in total banking transactions at the end of 2014 was 94% and increased by 1 pp compared to the same period of 2013.

In 2014 online acquisition channels were an effective channels of winning customers. In 2014 the number of new credit cards sold online grew by more than 108%, which translates to approx. 14% of total acquisition in the Bank. In total, online sales accounted for 10% of total sales, taking into account all customer segments.

Last year, to reward loyalty of long-time customers, the Bank deployed Citi Celebracja project, where a special, personalized message is sent to Customers.

Social Media

In 2014 the Bank continued activities in the social media, an important channel of keeping in touch with customers. The Bank focused on improving customer service quality, providing access to the Customer Ombudsman through a dedicated application. In total, messages posted by the Bank on Facebook were followed by more than 170,000 fans interested in news from Citi Rabaty and Citi Mobile.

7. Changes in IT technologies

In 2014, IT projects were implemented to ensure development of a stable technological platform for the Consumer Bank and the Corporate Bank under the Bank's current strategy and to ensure technology cost reductions while expanding the state-of-the-art product offer and improving the quality of the services offered. The Bank's IT processes are executed according to international standards, as confirmed in February 2014 by a positive outcome of a supervisory compliance audit under ISO 20000 (IT service management), ISO 27001 (information security management) and ISO22301 (business continuity management).

The following solutions were implemented in 2014:

- adjustment of the Bank's systems to regulatory requirements and new Directives of the European Union;
- launching of an integrated ITC solution which supports cash withdrawals by corporate customers at the branches of the Polish Post;
- further improvement in the electronic platform for trade finance services – the system was adapted to support further products, such as the Trade Credit;
- modification of the Corporate Bank's main system Flexcube – replacement of the hardware and database platform;
- improved security of the Bank's ATM network with the implementation of anti-skimming solutions, migration of the entire ATM network to the new OS (Windows 7); addition of new functionalities, such as USD and EUR cash withdrawals at some of the Bank's ATMs and introduction of a wireless ATM;
- implementation of SIP in other branches of the Bank to support use of central telephone lines in Warsaw instead of local lines in the branch in order to optimize the operational support model and telecommunication costs;
- Desktop Optimization Initiative – improved effectiveness, modernization and optimization of the Bank's computer environment.
- implementation of the requirements of Recommendation D published by the Polish Financial Supervision Authority in January 2013 to the extent of improving the management of information technology and ICT environment security;

- implementation of a modern platform which supports sales of credit products (cards, loans), based on iPad mobile devices;
- outsourcing of retail banking application support and development to specialized entities, CI PLC and Wipro IT Services Poland, to optimize the costs of providing services in the area of technologies.

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

- continued development of the state-of-the-art Consumer Bank distribution network: opening more SMART branches;
- implementation of the integrated risk management system CitiRisk;
- continued development of the electronic platform for finance services in line with business needs;
- a project which involves implementation of a new version of the Bank's online platform for retail customers;
- implementation of a new platform supporting commercial cards for corporate customers ECS+ and a new version of the prepaid card platform Prime/Online;
- replacement of the main system used by the Treasury Division Kondor+ with eDealer in order to implement new functionalities, reduce development and operating costs and unify platforms with regional partners;
- CitiCash – implementation of a new electronic platform supporting cash products of the Corporate Bank;
- implementation of a new version of the Elixir system and implementation of adaptation changes in the satellite systems in connection with deployment of the new version of the system by KIR;
- further harmonization of the Bank's systems with regulatory requirements including EMIR, FATCA;
- further development of functionalities of the ATM network, among others by introducing foreign currency deposits;
- implementation of the Follow the Sun model so that the Bank is supported by specialized entities in the field of ICT infrastructural services.

8. Equity investments

All equity investments of the Bank are divided between the strategic investment portfolio and the divestment portfolio. In 2014, the Bank continued to pursue its existing equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase the market share, stimulate development of the Bank's relations and expand the Bank's offer; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

8.1 Strategic portfolio

The strategic holdings include entities operating in the financial sector which expand the product offer of the Bank, strengthen its reputation and competitive advantage in the Polish financial services market.

The strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank does not hold controlling interests in such entities but they are of strategic significance to the Bank in view of the operations they pursue and their relations with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The Bank's overriding objective in the exercise of its corporate governance prerogatives over these companies is to ensure their stable development and continuation of their present operations which the participants of the financial market, including the Bank, rely on.

8.2 Divestment portfolio

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

The strategic objective of the Bank with regard to companies in the divestment portfolio is to gradually reduce the Group's investment. The assumption is that individual participations will be sold whenever 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. The divestment portfolio may grow if the Bank chooses to convert its debt to equity and wherever the Bank acquires investments in the course of its operations.

Special purpose investment vehicle companies

As at 31 December 2014 the Group included two investment companies, through which the Bank pursued equity operations. Activities of such companies were financed by a reimbursable surcharge made by a shareholder to the capital and from profits.

In connection with continuation of the Bank's strategy to limit activities by SPVs, it is expected that further investment SPVs will be successively divested or liquidated.

Based on information available on the day the (non-audited) financial statements were prepared, the key financial data for the SPVs as at 31 December 2014 were as follows:

Entity	Headquarter	Authorized capital/votes in GM held by the Bank	Balance sheet	Equity	Net financial profit/loss for 2014
		%	PLN '000	PLN '000	PLN '000
Handlowy-Inwestycje Sp. z o.o.	Warszawa	100.00	10,926	10,889	54
Handlowy Investments S.A.*	Luksemburg	100.00	44,077	40,246	(402)

* Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2015, which is the entity's balance sheet date.

9. Awards and honors

In 2014, the Bank, DMBH and the Kronenberg Foundation received a number of prestigious awards and honorary titles:

- Companies voting the **Euromoney Cash Management Survey 2014** chose fund management in Citi Handlowy as the best in Poland. Compared to the previous year, the bank went up one place in the ranking, and Citi retained its leading position in Central and Eastern Europe. The Cash Management Survey is a prestigious ranking regularly organized by Euromoney Magazine. In this year's edition, information were sourced from 28,000 international corporate customers, from all around the world;
- **Citibank PremierMiles** credit card was named the 2015 best card for Poland. The new credit card for travelers enhanced the Citi Handlowy's offering in October; in November it was awarded at the Central European Electronic international conference;
- Third year in a row, Citi Handlowy was ranked first in the competition of the **Ministry of Finance** for the Treasury Securities Dealer in 2015;
- Citi Handlowy was included in the **MSCI Global Sustainability Index**, a prestigious index of companies meeting high standards in the field of corporate governance, environmental protection and corporate social responsibility;
- The UK financial magazine **Euromoney** named Citi Handlowy Poland's best private banking provider. The Bank ranked first in the Super Affluent Customers category of the Private Banking and Wealth Management ranking;
- **The Banker**, a Financial Times group magazine, named Citi Handlowy private banking the best in Poland;
- Citi Handlowy was the first service organization and the first bank in Poland to be certified under **ISO 50001:2011**. It is the highest standard which requires continuous improvement of energy performance and energy systems. The certification process was preceded by two years of preparations and the implementation of an overarching Environmental Management System.
- The **Warsaw Stock Exchange** recognized DMBH by giving the first prize for the highest share in session trading in equities on the main market 2014. At the 2014 stock market gala, the Management Board of the Warsaw Stock Exchange presented Citi Handlowy as a market maker on the market of Treasury BondSpot Poland;

- The editors of The **Warsaw Business Journal** presented Polish companies with certificates for the first position in the rankings of this years' edition of the **Book of Lists**. DMBH ranked first in the Book of Lists ranking for the highest share in session trading on the Warsaw Stock Exchange. The Book of Lists is the biggest and oldest business publication on the Polish publishing market, which presents – in Polish and in English – around 70 rankings of more than 2,500 of the best performing companies in different industries in Poland.

- Citi Handlowy was one of two banks among the six companies awarded for excellent investor relations. The survey was carried out by **TNS Polska** as part of the project "Public Company of the Year" run by Puls Biznesu. The survey, among 130 analysts, consultants and stock brokers, evaluated all companies listed on the Warsaw Stock Exchange;

- 16 CSR initiatives of Citi Handlowy were commended by the Responsible Business Forum in its **12th edition** of **"Responsible Business in Poland. Good Practice" report** which has been published since 2002. It is the only such study which summarizes key issues in the area of CSR business activities. The practices listed in the report included a record-high number of 16 initiatives of Citi Handlowy, i.e. 6 more than in 2013. The new practices (first time in the report) included the Aleksander Gieysztor Award, the Bank Handlowy Award, the Roots Program, the Volunteer Club, Be Entrepreneurial, Business Start-up, Environmental Management System Maintenance, Energy Management System Implementation, and the Live Well Program;

- Results of the 8th edition of the **Dziennik Gazeta Prawna Responsible Companies Ranking** were published on 23 April. Citi Handlowy has been listed in the ranking since the first edition, ranking high in its industry (banking, financial sector and insurance);

- Citi Handlowy was named the Best Foreign Bank in Poland in the **EMEA Finance Europe Banking Awards 2013** ranking. The prestigious financial magazine EMEA Finance awarded Citi Handlowy for consistent development and high profitability. In addition to a positive appraisal of the Bank's assets growth and generated financial results, the ranking appreciated the innovative edge of its products and services. The Smart Banking Ecosystem was also acknowledged. EMEA Finance awards have been given for six years to the best financial institutions in the emerging markets of Europe, Middle East and Africa (EMEA);

- In November 2014 Citi Handlowy Kronenberg Foundation won the **"Faces of Entrepreneurship"** competition organized by the **Global Entrepreneurship Week Foundation**.

- For the eighth time, Citi Handlowy was quoted in the **RESPECT Index**, the first index of responsible companies in Central and Eastern Europe, initiated by the **Warsaw Stock Exchange**.

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

Concerns about the future of the eurozone may develop slowly because of the growing support for radical political parties in the countries of the monetary union. It cannot be excluded that this will lead to increased volatility in the financial markets, contributing to the deterioration in sentiment among entrepreneurs. The high degree of uncertainty could lead to a delay of investment projects, and hence slower economic growth in the country.

The sharp slowdown in the economic growth in Russia and the weakening of the rouble limit the possibility of a clear increase in Polish exports to the eastern markets. This will have a particularly negative impact on companies operating in Russia or Belarus. This risk may be further enhanced with the adoption by the European Union or the United States of additional sanctions against Russia, especially if the conflict in the territory of Ukraine becomes more severe.

A decision of the European Central Bank to launch a programme for the purchase of assets may lead to an increased influx of capital to countries with a relatively high level of market interest rates, including Poland. As a result of capital inflows, the exchange rate of zloty to euro would be subjected to appreciation pressure, thereby worsening the competitive position of Polish exporters. On the other hand, the decision of the Swiss Central Bank to abandon the defence of the CHF to euro exchange rate means that the cost of debt among some households could increase by over 10%. If the pressure on the appreciation of the franc increases, this could affect the quality of loans in the Polish banking system.

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

1.2 Regulatory and legal risks

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

The most relevant of these legal and supervisory regulations include:

- acceptable concentration limits of loans and total receivables (Banking Act);
- maximum limit of equity that may be invested in the capital market (Banking Act);
- liquidity, solvency and credit risk standards (resolutions of the PFSA);
- risk management at the bank (Banking Law, resolutions of the PFSA);
- mandatory reserves – establishment and transfer (NBP Act, Banking Act, resolutions of the PFSA, resolutions of the NBP Management Board);
- provisions on taxes and other similar fees;
- Act of 7 July 2005 amending the Civil Code and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such a loan;
- limits regarding the extension of mortgage-secured foreign currency loans, specified in Recommendation S and Recommendation S(II) of the Commission for Banking Supervision;
- Act of 16 February 2007 on protection of competition and consumers;
- Countering Unfair Market Practices Act of 23 August 2007;
- Act of 16 November 2000 on combating money laundering and terrorist financing;
- Act of 29 July 2001 on consumer credit;
- Consumer Credit Act of 12 May 2011;
- Payment Services Act of 19 August 2011;
- Act on Trading in Financial Instruments of 29 July 2005.
- Act of 6 December 2013 amending certain acts in connection with the determination of rules of pension payments from the funds accumulated in open-end pension funds;
- Act of 14 December 1994 on the Bank Guarantee Fund (BGF);
- Regulation of the European Parliament and the EU Council No. 648/2012 of 4 July 2012 and the secondary legislation to the Regulation issued by the European Commission. This Regulation with secondary legislation imposes additional rights and obligations on the parties of OTC derivative transactions, which are designed to provide increased security and transparency of these transactions. As a rule (with certain exceptions), the Regulation applies to OTC derivative transactions, i.e. transactions executed outside the regulated market. Obligations arising from the above regulations apply not only to professional financial institutions such as banks or brokerage houses, but also to any entity that is an entrepreneur which closes transactions in derivatives;
- Recommendation A of the Polish Financial Supervision Authority on management of risks related to derivative transactions conducted by banks;
- Recommendation T of the Polish Financial Supervision Authority concerning best practice of managing the risk of retail credit exposures;
- Recommendation I of the Polish Financial Supervision Authority on management of foreign exchange risk in banks and rules of performing transactions subject to foreign exchange risk by banks;
- Recommendation M of the Polish Financial Supervision Authority concerning operational risk management at banks;
- Recommendation D concerning management of IT areas and ICT environment security at banks. The recommendation has replaced the previous Recommendation D. As compared to the previous version of Recommendation D, provisions have been implemented among others in relation to management of data (including data quality), principles of cooperation between business and technology, the management information system for IT and ICT security and cloud computing. Supervisory expectations have also been updated and clarified as regards strategic

planning in the IT area and security of the ICT environment, implementation of new and modification of existing IT solutions, cooperation with third-party service providers and management of risks connected with ICT environment security;

- Guidelines of the Polish Financial Supervision Authority of 16 December 2014 on the management of IT and ICT security areas at pension companies, insurance and reinsurance companies, fund management companies, entities providing capital market infrastructure and investment firms. They are a version of Recommendation D on the management of IT and ICT security areas at banks adapted to the needs of individual sectors. The PFSA expects appropriate measures aimed at implementing the standards set forth in the guidelines to be implemented by the entities subject to supervision no later than by 31 December 2016. In the area of the Bank's business, these guidelines apply to the Brokerage Services Management Unit as well as to Dom Maklerski Banku Handlowego S.A;
- Corporate Governance Principles for Supervised Institutions issued in PFSA's resolution of 22 July 2014. These principles are a set of rules governing the internal and external relations of institutions supervised by the PFSA, including their relations with shareholders and customers, their organization, functioning of internal supervision and key internal systems and functions, as well as their corporate bodies and the interactions between them. The principles apply to the Bank and Dom Maklerski Banku Handlowego S.A.

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

- 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") – issues regulated by CRD IV include the establishment of banks, capital buffers, supervision, management and corporate governance of banks and investment firms. CRR contains regulations regarding among others own funds, capital requirements, liquidity and leverage. The Directive requires transposition into the Polish law, while the Regulation will apply directly in all EU Member States. The Directive is to be transposed into national law by 1 January 2014. Work is underway on the national transposition of CRD IV in Poland and harmonization of the Polish law to directly applicable provisions of CRR. As a result, the Ministry of Finance drafted an act amending the Banking Law and some other Acts and presented the draft on 16 April 2014 for consultation, public consultation and opinion to institutions such as the Polish Bank Association, the National Bank of Poland and the Polish Financial Supervision Authority. The transposition of CRD IV will be accompanied by implementing regulations issued under the mandate given in the draft act. Furthermore, pursuant to CRD IV and CRR, regulatory technical standards will be implemented in subsequent years.

- On 26 June 2014, the Polish Parliament passed a law amending the Consumer Bankruptcy Act: individuals in distress for reasons beyond their control will be allowed to file for bankruptcy on more advantageous terms. The main solutions used in the Act include:

  - Elimination of barriers in accessing consumer bankruptcy: the court may dismiss a motion to declare consumer bankruptcy where the consumer becomes insolvent due to willful action or gross negligence, provided that negative conditions do not apply (e.g. a bankruptcy procedure was opened or the debtor did not file a motion for bankruptcy despite being insolvent within the last 10 years). At this time, a debtor may declare bankruptcy if it arises from exceptional circumstances beyond the debtor's control, in particular if the debtor assumes an obligation while being insolvent or the debtor's employment contract is terminated for reasons caused by the employee or with the employee's consent;
  - Reduced cost of the consumer bankruptcy procedure, to be temporarily paid by the State Treasury;
  - Option of creditor agreement as part of the bankruptcy procedure in order to e.g. allow the debtor to retain his or her home in exchange for an individual repayment plan approved by the majority of the creditors (currently, only liquidation bankruptcy is allowed);
  - Moving beyond a strictly formal approach to the bankruptcy procedure: the court may overlook minor errors in the consumer's applications and declarations if justified by principles of social co-existence, in particular on humanitarian grounds;
  - Consumer bankruptcy may also be declared if the debtor only has one creditor, and in the case of individuals running a farm;

- The bankrupt debtor's liabilities may be cancelled if the personal situation of the debtor clearly suggests that he or she would be unable to make any payments under a creditor payment plan;
- The option for creditors to file for cassation of a court decision cancelling liabilities.

The amended provisions came into force on 31 December 2014.

The Consumer Rights Act of 30 May 2014 (Journal of Laws of 2014, item 827) was published on 24 June and entered into force on 25 December 2014. The Act will replace the existing Acts:
− Act of 2 March 2000 on protection on some consumer rights and hazardous product liability;
− Act of 27 July 2002 on special terms of consumer sales and amending the Civil Code.
With respect to the banking activity, the main amendment is the elimination of the form of sale outside the enterprise's premises. At present, the Act provides for different requirements for financial services sold remotely and sold outside the enterprise's premises. After the new Act takes effect, all sales of financial services outside a branch will be considered remote sales.
Furthermore, the Act introduces an amendment of the Telecommunication Law whereby the use of telecommunication terminals and automated calling systems for direct marketing will be forbidden unless pre-approved by the subscriber or end user.

The Act of 28 November 2014 amending the Act on payment services, which entered into force on 29 January 2015. According to the Act, the interchange fee rate may not exceed 0.2% of the unit value of a domestic payment transaction made with a debit card, and 0.3% of the unit value of the domestic payment transaction made with a credit card. For a payment card other than a debit card or credit card, the interchange fee rate may not exceed 0.3% of the unit value of a domestic payment transaction. Within three months of the effective date of the Act, payment service providers are required to adjust the agreements concluded prior to the effective date of the Act to the provisions of the Act.

Amendment to the Act on Investment Funds whose purpose is to implement Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No. 1060/2009 and (EU) No. 1095/2010. Additionally, the draft implements Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions. The expected date of its entry into force is 1 July 2015. The Act provides for a six-month grace period during which undertakings can adjust their activities to amended regulations. The changes resulting from the Act and from the EU Regulation have an impact on the Bank's performance of its role as a depositary and will require amendments to the agreements signed by the Bank.

The new Act on bonds passed by the Parliament on 28 November 2014 to replace the Act on bonds which has been in effect since 1995. On 14 January 2015, the Commission of Public Finance will examine the resolution of the Senate with amendments to the draft Act on bonds as passed by the Parliament on 28 November 2014. The expected date of entry into force is 1 July 2015. The Act will have an impact on the existing bond issue programmes and will require making changes to the agreements concluded by the Bank with the issuers.

Restructuring Act (draft under construction) – with the effective date specified in the draft as at 1 July 2015. The draft proposes solutions which change the method of dealing of with entities and with entities in financial difficulty, which may affect both the assessment of credit risk when extending certain types of financing as well as the speed of debt collection.

Recommendation U of the Polish Financial Supervision Authority: on 24 June 2014, the Polish Financial Supervision Authority adopted Recommendation U concerning good practice of bancassurance. The Recommendation should be implemented in the practice of supervised institutions no later than 31 March 2015. Its implementation may have a significant impact on the distribution of insurance products by banks, their customer relations, bancassurance policy management and monitoring. The main issues covered by the recommendation include: regulating the obligations of the management board and the supervisory board in the implementation of bancassurance policy, conflict of interest rules for banking activity (in particular where a bank acts both as the insurer and the insurance intermediary), requirement for banks to clearly communicate their role (intermediary or insurer) to customers, rules for banks' reliable customer information policy, giving customers a choice of insurance products and insurers, enabling customers or their inheritors to raise claims directly where a bank decides not to raise claims from the insurer, the requirement for banks to set their fee on offered insurance products in proportion to costs incurred by them, the requirement for banks to have an effective bancassurance internal control system (including monitoring of processes involved in the offering of insurance products and application of the correct recognition of income from the products offered).

- On 12 June 2014 MiFID II and MiFIR Regulation were published in the Official Journal of the EU, which will come into force in January 2017. The MiFID II package will replace the current MiFID I package (MiFID 1 Directive, MiFID 2 Directive, MiFID Regulation). The MiFID II system will consist of other acts, such as implementing and delegated regulations. The new rules are designed to strengthen the existing market structures, apply relevant regulations to the OTC market, increase the powers (pre- and post-transaction transparency) in response to changes in financial markets (development of technology and new financial products), strengthen supervision and introduce appropriate sanctions for failure to comply with regulations and increase the protection of investors (both personal and professional). The most important provisions of the MiFID II system in the field of consumer protection are:
  - Limiting the assumption that the professional customer has the knowledge and experience appropriate for the given service limited only to non-complex financial instruments;
  - Clarification of the definition of a professional customer ("based on the assumption");
  - Greater protection of an eligible counterparty (the principles of integrity and professionalism required of the company in a given market);
  - Subjecting new products, previously not covered by MiFID provisions, to the rigors of MiFID, among others, insurance with an investment component (unit-linked);
  - Implementation of the review process of the products offered for original design;
  - Additional requirements for the management of conflicts of interest, and the so-called incentives (monetary or non-monetary benefits, accepted or given in connection with the investment service being provided);
  - Right of EBA, ESMA and local regulators (such as the PFSA) (i.e. product interventions) to prohibit or restrict:
    - Marketing, sales, distribution of a product;
    - A given activity or e.g. sales practice.
- On 12 June 2014 the followings acts were published in the Official Journal of the European Union: Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC - the so-called MAR - Market Abuse Regulation, and Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse - the so-called MAD - Market Abuse Directive. Adoption of the Market Abuse Regulation (MAR) will involve, inter alia:
  - Extension of the existing market above provisions to cover, inter alia, abuse of electronic trading platforms;
  - Introduction of a clear prohibition of strategies implemented with high-frequency trading that leads to abuse;
  - Recognition of persons who commit manipulation of reference rates such as LIBOR as guilty of market abuse and imposing severe fines on them;
  - Imposing a ban on abuse both in commodity markets and related derivatives markets, and strengthening cooperation between regulators of the financial market and the commodity market;
  - The possibility of imposing fines of at least three times the profit gained through fraud on the market, or at least 15% of turnover for companies (Member States may also decide to increase the minimum rates).

The aforementioned legislation entered into force on 3 July 2014 and on that day, a 24 month period began, during which the Commission will have to adopt implementation measures for the Regulation and the Member States will have to transpose the Directive into national law.

The two-year preparatory period before the entry into force of the MAR Regulation will allow the issuers to work on the development of new reporting standards, accepted by the regulator.

1.3 Competition in the banking sector

In 2014, the rate of economic growth accelerated considerably and exceeded 3% in each of the first three quarters of the year, which represents a significant improvement over the previous year. From the perspective of the banking sector's revenues, the low level of interest rates was an unfavorable factor. In response to the emergence of deflation in Poland, in October the Monetary Policy Council decided to further cut the reference rate by 50 base points, bringing interest rates to a new historic low of 2.0%. More severe, however, was the unexpected deeper reduction of the lombard rate by twice as much at the same time, as a result of which the maximum interest rate for loans was reduced from 16% to 12% per annum. The pressure on banks' financial results was reflected in the activities limiting the costs and making changes to the tables of fees and commissions. Still, the stability of interest rates in the first three quarters, combined with increased lending, allowed to improve net interest income compared to the previous year, which resulted in a record high net profit of the sector.

2015 will bring additional challenges for the banking sector due to the decline of the interchange rates to a level of 0.2% - 0.3%, and higher fees to the Bank Guarantee Fund. A new risk that is difficult to quantify will be the effects of the significant strengthening of the Swiss franc in January 2015. The related costs will directly result from the nature of any system solutions the implementation of which is currently being considered. Strong economic growth and continued growth in lending in consumer and corporate loans will remain an opportunity for the banks.

Recent years have seen increased activity in the market of mergers and acquisitions in the financial sector. Attempts to continue this trend will likely meet resistance from the regulator, which determines the current level of concentration in the banking market as "close to the optimum." However, in the future we should expect consolidation movements especially among medium-sized institutions, which will tend to increase the scale of operations to improve efficiency.

Non-bank lending companies which operate on the basis of less restrictive regulations remain a source of risk to the stability of the financial sector. Operation of these companies somehow outside the banking system results in the inability to verify the actual level of indebtedness of borrowers, which disrupts the assessment of their creditworthiness and may lead to excessive customer indebtedness.

An important challenge faced by the banking sector is the situation in the credit union sector (SKOK). Most of the unions subject to reorganization proceedings under the supervision of the Polish Financial Supervision Authority, and their future remains uncertain. Any bankruptcy of unions may indicate the need for further use of funds deposited in the Bank Guarantee Fund. The burden of replenishing used funds will be mostly placed on the banking sector, which in subsequent years may adversely affect the profits of financial institutions.

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

2.1 Liquidity risk

As is typical of banking activity, the Bank experiences maturity gaps between loans and the underlying deposits. These 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 Assets and Liabilities Committee, which defines the strategy that is implemented by the Financial Markets Sub-Sector.

The key task of the Assets and Liabilities Committee of the Bank is 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 management activities, the Assets and Liabilities Committee of the Bank is responsible for the development and implementation of a uniform policy of liquidity risk management in the Bank, approves annual liquidity plans, funding plans of the Bank's assets and the Bank's liquidity limits, as well as liquidity contingency action plans. It also determines threshold limits for particular sources of funding and carries out regular reviews of liquidity risk reports.

The Bank's deposit base is stable and diversified. Furthermore, the Bank has a large portfolio of liquid securities, good access to interbank funding and a high equity. The level of liquidity risk in 2014 was low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and on its own account, and holds open foreign exchange positions within established limits. Consequently, the Bank incurs foreign exchange risk. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates with the Financial Markets Sub-Sector, the unit managing liquidity and the foreign exchange position. In 2014, the market risk of the Bank's proprietary positions was low.

2.3 Interest rate risk

Similar to other Polish banks, the Bank is exposed to a risk arising from a gap in the timing of changes in interest rates on its assets and the underlying liabilities (revaluation date gap risk) and from the sensitivity of the value of debt securities and of interest rate derivatives to changes in the market interest rates (pricing risk). In respect of the revaluation date gap risk, interest rate risk can arise when a reduction in income caused by lower interest rates on loans proves impossible to offset through a corresponding reduction in interest rates paid to deposit holders. This risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk can arise when changes in the market rates have an adverse effect on the valuation of instruments in the trading portfolio and, consequently, on the Bank's financial result or on the valuation of the portfolio of securities available-for-sale and, consequently, on the Bank's equity. The management of interest rate risk is a responsibility of the Assets and Liabilities Committee of the Bank which, among other things, determines the Bank's interest rate risk pricing policy. In 2014, the level of interest rate risk ranged between moderate and high both for the trading portfolios and the 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. For counterparty risk, the size of the Bank's exposure fluctuates over time. If the transaction is not settled in time, the Bank runs an additional risk of changing the contract value. The Bank introduces limits for the credit risk and counterparty risk at the exposure level to the entity or a group of related economic entities. In addition, portfolio-level limits are established that support the process of management and on-going monitoring of the credit portfolio. The process of proactive portfolio quality management covers not only assigning appropriate ratings to exposures, but also assigning them with appropriate internal classifications, recognizing their impairment and applying relevant corrective or collection actions. The Bank creates impairment losses for credit exposures as required by the regulations. The Bank's Management Board is of the opinion that the current level of impairment losses is adequate. As the possibility of change in the external environment or other circumstances that could adversely impact the financial condition of the Bank's customers always exists, there is no certainty that some future need for adequate provisioning against the existing asset portfolio will not have an adverse effect on the Bank's financial position or that the provisions and the impairment losses and collateral in place will prove sufficient to absorb the possible losses arising out of lending.

2.5 Operational risk

Operational risk is the possibility of loss resulting from inadequate or failing internal processes, people, or technical systems, or from external events. It includes reputation risk, associated with operational risk events, and business practices or market conduct. Operational risk also includes legal risk and the risk of non-compliance (as defined below). Operational risk does not include strategic risk or the risk of loss resulting from decisions made with respect to accepted credit, market, liquidity or insurance risk.

The goal of the implemented Operational Risk Management Strategy and Policy is to put in place a coherent, effective, value-added oriented system of operational risk identification, assessment, mitigation, control, monitoring and reporting and to ensure effective reduction of exposure to operational risk and, consequently, to reduce the number and severity of operational risk events (policy of low tolerance for operational losses), as well as increase overall effectiveness of the internal control environment across the organization of the Bank.

In the operational risk supervision and management process, the Supervisory Board and the Management Board of the Bank are supported by appointed Committees and a separate independent unit responsible for operational risk management. Management information on operational risk for the Committees includes data necessary to monitor the Bank's operational risk profile (e.g. results of internal controls and external audits, results of self-assessment, Key Risk Indicators (KRI), operational losses, COB and information security updates, problems and corrective actions, capital requirements, stress testing).

The family of operational risks (including technological and technical risk, outsourcing risk, risk of fraud, money laundering, information security, external events (continuity of business), tax and accounting risk, product risk, compliance risk, legal risk, model risk and HR risk) is managed largely by means of the continuously improved control environment and the engagement of specialized units in management of particular risks.

The total amount of gross operating losses recorded in 2014 is 0.16% of 2014 revenues (this ratio pertains to losses posted to 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 2014 the Bank continued the 2012-2015 Strategy as adopted in 2012. The Strategy is based on four fixed pillars: customer segmentation, business model, quality and innovation, and effectiveness.

The Group focuses on areas where the Group has a strong competitive advantage and it is where the Group takes a range of initiatives aiming to enhance the service offer. In the retail segment, the initiatives focus on the credit card market and affluent customer service, while in the corporate segment, operations mainly relate to services provided to global companies and major domestic companies. Other areas of active operations of the Bank include the foreign exchange market, transactional banking and securities custody, as well as institutional brokerage operations.

One of the priorities of the Group is effective acquisition of new customers on the target markets and deepening of relations with existing customers. Both in the Commercial Bank and Consumer Bank, the Bank focuses on acquiring operating accounts and increasing product saturation among customers.

Innovation and top quality service is one of the pillars of the strategy adopted by the Bank. Continuous enhancement of the offer with innovative solutions which meet the needs and expectations of customers enables the Bank to effectively compete in the market for financial services and set new trends in the development of the banking sector.

Adapting to the changing needs and expectations of customers is one of the key challenges of the Bank. On one hand, we can see reduced frequency of visits to the branches, on the other hand, the growing importance of remote channels in customer service. To address these changes, the Bank is continuing the process of optimizing the distribution network based on Smart branches located in large metropolitan areas. At the same time much emphasis is placed on the development of remote channels and increasing sales through mobile solutions.

One of the strategic objectives of the Group is to build value of the Bank through increasing operational efficiency and the use of market leverage resulting from strong capital position and high liquidity. The strong position of the Bank is a guarantee of safety for customers, which translates to high trust in the institution, while the continuous improvement of the quality of services and processes allows us to build the strong brand of the Bank. Further investments in new technologies will enable the Bank to develop and launch ground-breaking innovations to strengthen its market position. For the customers it is essential that the global nature of Citi Handlowy is effectively utilized so that services of the Bank can be accessed throughout the world.

1.1 Corporate and Commercial Bank

In the area of the Commercial Bank, the Bank has consistently implemented its strategy and maintained a leading position in the segment of international companies and the largest local companies, as well as strengthening its position among the SME companies. The Bank intends to maintain its position through acquisition of new customers and by deepening relations with existing customers in selected industries, as well as by providing support to customers who are developing their activities abroad (the Emerging Market Champions initiative). The Bank's objective is to become a Strategic Partner for Polish enterprises and to actively promote expansion of the Polish industry. In terms of product offering, the Bank also plans to further intensify cooperation with customers who may potentially conduct foreign exchange transactions and who are looking for products in the field of trade finance and institutional brokerage business.

It is an objective of the Bank to enhance effectiveness by improving processes, focusing on innovations and raising the quality of services. In terms of transactional banking, the Bank will continue to expand the range of products for corporate customers in order to support the acquisition of new customers and maximize participation of the existing customers in the portfolio, paying special attention to deepening of relationships with credit customers acquired in 2014.

1.2 Brokerage activity

The main customers of DMBH are domestic and international institutional investors, therefore activity of these groups largely determines the brokerage activities of DMBH. A major factor which may affect activities of DMBH is considerable reduction in funds transferred to Open-End Pension Funds (lower value of premiums and efflux related to support for the so-called “safety slider”), as well as the growing regulated limit of foreign investments, which may reduce demand for shares of domestic companies from such customers. On the other hand, greater activity should be expected of domestic equity funds, which should benefit from shifting part of savings from funds exposed to the monetary and bonds market.

1.3 Consumer Bank

The Bank aims to continuously focus on customer segments and products where it has the competitive advantage. This implies further growth in *wealth management* and relational banking, focused on the affluent (CitiGold) and aspiring customer segments.

In the first half of the year, the Bank plans to implement a unique offer for the most affluent customers (*private bank*). In the Citigold Customer segment, the Bank will strive to consolidate its position as a leader and ensure that Citi Handlowy remains the bank of choice with a full range of banking products, auxiliary services such as investment advice, privileges and exceptional customer-oriented service. The Bank will continue to develop the Citi Priority offering, by adapting product packages to customer expectations. Major focus will be placed on flexible access to banking services based on modern technologies. For the aforementioned customers groups, the Bank will seek synergy with other Citi entities in the world, by providing customers with unique experience in the area of global banking. An important element of the global ecosystem will be solutions developed in 2014 and related to currency exchange rates – we are planning to offer our customers very attractive rates and products related to FX markets.

The Bank also plans to continue to develop the infrastructure of branches, by introducing elements of SMART banking to Citigold Centers.

VIII. The Bank’s community initiatives and cultural sponsorship

1. Corporate Social Responsibility (CSR)

The Bank is socially responsible and sensitive to the needs of its business and social partners. All the Bank's activities are undertaken in accordance with the needs of its customers and the communities in which it operates.

The Bank's activity in the field of CSR stretches out to workplaces and market environment, local communities, and environmental protection. The strategic goal is to become the company that sets the standards of corporate social responsibility, both outside and inside the organization. We are continuing projects which support local communities, which are implemented for the public good in areas such as financial education, promotion of entrepreneurship, local development and protection of cultural heritage. The mission of the Bank in this field is pursued through the Citi Handlowy Kronenberg Foundation founded in 1995. Social commitment of the Bank has been recognized in independent rankings and lists, such as the Respekt Index, or Ranking of Socially Responsible Companies.

1.1 Relationships with customers – market practices

The Bank's mission is to play the leading role in the banking sector in Poland by offering world-class products and high-quality services to domestic and international customers. The strategic objective of the Bank is to achieve such a level of customer satisfaction to ensure that the customers stay loyal to the Bank, will be willing to recommend it, and will become ambassadors of the brand. Therefore, a number of actions have been undertaken to adapt operating principles of the Bank to the needs of customers. Currently, customers conclude almost 90% of the banking transactions through electronic services, and only 2% of transactions are closed at the branches. Following an analysis of customer behavior and the method, place and time of using banking services, the Bank made a decision to transform the consumer bank and develop the Smart Banking Ecosystem, in which remote channels of communication with the Bank play an essential role.

The Smart Banking Ecosystem is a new approach to Customer services, customer needs and expectations. Smart branches are not only about the new image, but most of all, the new quality of service. There are no standard cash desks, employee areas or traditional information brochures. Service is provided via digital media, touchscreens or tablets. The Smart Banking Ecosystem consists of 12 branches, mainly located in shopping galleries, places most frequented by the current and potential Customers of the Bank.

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 in corporate and consumer banking. The main indicator which measures the quality of service is the NPS (Net Promoter Score). The NPS allows to determine the willingness of customers to recommend the Bank, and thus determine customer satisfaction with services. Surveys cover key segments of the Bank's customers, the most important communication channels (i.e. electronic banking, telephone services, branches), "moments of truth" (critical moments of Customer contact with the Bank, e.g. when purchasing a product). Each Customer comment is analyzed by the Bank. What is important, when the Customer reports a problem in a public survey, the Customer is redirected to the relevant unit of the Bank so that the issue can be quickly resolved. The customer is informed of the activities planned by the Bank in order to address the reported issue. The strong position of the Bank in creating a tailored offer was recognized by a number of awards and honors given to the Bank in 2014 *(please see the Awards and honors section).*

Complaints

The Bank remains the leader among financial institutions in terms of speed of processing complaints. Most complaints in the Consumer Bank are reviewed within 3-4 days. Based on the analysis of complaints, the Bank undertakes a number of initiatives to improve the quality of customer service.

To ensure more efficient dialogue with the customers, in 2009 the Bank appointed the Customer Ombudsman. Customers may send comments and suggestions regarding the Bank to the Ombudsman by e-mail, to the e-mail address of the Ombudsman, or via the electronic contact form on the Bank's website. The Customers may also contact the Ombudsman directly.

Actions initiated by the Ombudsman have often contributed to system-wide changes and changes in the processes, which have significantly increased customer satisfaction level with the services offered by the Bank. In addition, Customers have welcomed direct contact with the Ombudsman and the ability to submit suggestions, doubts or comments.

Data protection and customer privacy

The Bank undertakes to protect the private and confidential information of its customers and to properly use it. These rules are described in the internal document entitled "Rules of protecting personal data in Bank Handlowy w Warszawie S.A".

The Bank collects, stores and processes personal data of customers in the manner prescribed by the national law with the aim to offer customers products and services which better meet their financial needs and enable them to achieve financial goals. With this in mind, the Bank makes every effort to implement and maintain appropriate systems and technologies and properly train employees who have access to such information. Suppliers hired by the Bank have a similar obligation to protect the confidentiality of the data, including sensitive and personal data received from the Bank. The Bank also complies with its own stringent internal standards and regulations concerning privacy and security of information and personal data (standards for IT systems management, information security standards, general security regulations). In addition, each employee of the bank is obliged to protect all the personal and confidential data of customers, ensuring that such information is used only for legitimate purposes related to the work performed and is available only to authorized persons and organizations, and stored in a correct and safe way.

The Bank applies the highest standards in the field of information security. Regular audits are carried out in this area, as confirmed by certificates of compliance with ISO 27001 and ISO22301 held by the Bank, which cover all the processes, products and services which the Bank provides to its customers.

1.2 Workplace practices

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

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

The Bank offers its employees a safe and friendly place to work, engaging their energy and feeling a sense of personal achievement, satisfaction and opportunities for personal development. Employee development is supported by implementation of activities such as training, commitment to the demanding projects, as well as the evaluation process by which employees receive information on their strengths and areas that still need to be developed. The Bank has implemented a personnel policy, accompanied by documented, measurable and regularly monitored goals.

The process of staff selection and development is extremely important for the development of the Bank. For this purpose, all the employees have been provided access to the intra website, www.KarierawCiti.com.pl, where anyone is able to apply for a position of interest within structures of the Bank and other companies of the Citi Group.

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

As part of the non-wage benefits, employees enjoy an occupational pension scheme, life insurance, sport package, private health care, social benefits fund and banking products on preferential terms. Employees also have the ability to work flexible hours so that they are able to fulfil their personal and professional responsibilities in a better way.

Taking care of work safety, the Bank strives to provide optimal working conditions for all employees with special emphasis on safety and health at work.

Employee satisfaction surveys

Every year, the Bank conducts an employee sentiment survey called the Voice of Employee. The survey is the study of employee satisfaction and commitment. Participation in the survey is voluntary. Questions answered by the employees pertain to communications, opportunities for development, meritocracy, relationships with superiors and co-workers, participation in decisions, the balance between work and personal life, as well as the diversity of values and ethical principles that the Bank follows.

Completing the surveys is the first step in activities related to work on the study of sentiment among employees. Further steps include the analysis of results, group interviews to study the results and prepare improvement action plans after the survey, implementation and communication of results to employees. In 2014 the survey was filled out by more than 80% of eligible employees.

Workplace diversity

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

All employees of the Bank are obliged to act in accordance with applicable laws, internal regulations and standards. The Bank seeks to create optimal opportunities for its employees so that they are able to realize their potential, to provide them with opportunities for professional development and to nurture their diversity with dignity, regardless of sex, race, religion or sexual orientation. Employees are required to treat their colleagues with respect. The aforementioned expectations of the Bank are outlined in the “Rules of Conduct for the Employees of Bank Handlowy w Warszawie S.A.”

In 2013 the Bank signed the international “Diversity Card”, which obligates companies to impose a ban on discrimination at work and to take actions to create and promote diversity. It also represents the readiness of the company to involve all the employees and business and social partners in such actions.

Every year, a Diversity Week is organized in the Bank, during which employees are invited to participate in activities such as workshops, training courses and panel meetings.
During Diversity Week in 2014, an online survey was conducted among the employees. When asked “What do you associate diversity management with?” most of the employees replied that they "associated diversity management with creating such an atmosphere and organizational culture which makes an employee treated with dignity regardless of their personal features” (56% of responses).

The Bank also supports bottom-up employee initiatives, such as CitiWomen and CitiClub.

The mission of CitiWomen is to provide Citi female employees in Poland with suitable conditions for development and pursuit of professional ambitions and to support them in overcoming barriers as well as keeping a balance between work and private life. In 2014, a panel discussion was organized as part of CitiWomen with the participation of employees. During the discussion, five female Citi employees from five different countries spoke on how they perceived organizational culture in our Bank, what differences and similarities they saw, and mentioned examples worthy of following.

CitiClub was established to organize spare time and diversified cultural, sports and tourist activities. The club promotes wide integration of employees, which contributes to work satisfaction. CitiClub pursues “Citi Socially Active” sports projects combined with charity fundraisers for those in need.

Dialogue and freedom of association

There are two trade unions operating in the Bank, NSZZ "Solidarność" - Mazowsze Region Intercompany Trade Union Organization no. 871 at Bank Handlowy w Warszawie S.A and Independent and Self-Governing Trade Union of Employees of Bank Handlowy w Warszawie S.A. Cooperation between the employer and representatives of trade unions is based on partnership and the common goal of the highest standards in all employee relations.

Principles of Conduct of Bank Handlowy w Warszawie S.A. Employees

The Principles of Conduct constitute a compilation of the most important internal rules effective in the Bank. All employees of the Bank are obliged to act in accordance with applicable laws, internal regulations and standards. The Bank seeks to create optimal opportunities for its employees so that they are able to realize their potential, to provide them with opportunities for development and to nurture their diversity with dignity regardless of sex, race, religion or sexual orientation. The rules contain formal procedural solutions in case of any violations found. The Ethics Line operates in the Bank, where the employees may talk about the issues related to the selection of the best course of action in specific situations or cases of reasonable suspicions or information on a potential breach of provisions of law or ethical standards and regulations in effect in the Bank. The ethics line can be contacted by phone or e-mail. Contact may be established on an anonymous basis.

Every year, employees of the Bank undergo online training in the Rules of Conduct, which is mandatory.

Each newly hired employee receives the Rules of Conduct and is obliged to sign a letter of acknowledgement of the Rules and comply with such rules.

Employment restructuring

As part of the process of restructurisation and group redundancies carried out in 2013-2014, the ultimate goal of the Management Board of the Bank was to provide the widest possible support to the people being made redundant in seeking an alternative workplace in the Bank, in newly established structures of the Smart Banking Ecosystem and other Citi entities in Poland. One of actions addressed to employees affected by group redundancies was the outplacement programme (covering analysis of the CV, achievements, professional profile, consultations with professional advisors, participation in workshops on business and career continuation), which effectively allowed those people to rediscover themselves in the labor market and resume employment in their profession. In 2013 and 2014 the programme was involved by 71% of employees affected by group redundancies.

Employee voluntary work programme

The Bank has been implementing the largest employee voluntary programme in Poland, coordinated by the Citi Handlowy Kronenberg Foundation. The programme aims to encourage community initiatives of the Bank’s current and former employees. In 2014 a record number of 224 voluntary programmes addressed to 24,933 recipients was completed. Volunteers (also from outside the organization) were involved 2,934 times in social actions, an increase by almost 33% compared to 2013. As part of their actions, volunteers supported local communities, educational care facilities, social organizations, local government facilities and animal shelters. The key initiative was the 9th edition of the Citi Global Community Day. Every year, employees of the Bank with their friends and families try to address specific needs of local communities. In 2014, as part of the Citi Global Community Day, Citi volunteers completed 187 social projects addressed to nearly 23,000 people.

In 2014 key projects were continued, such as “Be a Santa Clause assistant” seasonal action or volunteer integration trips. In addition, as part of the year-long activisation, volunteers were invited to participate in meetings of the Volunteer Club, take part in the Senior Citizen Volunteer Programme, or social actions as part of the regularly distributed proposals of individual volunteering.

The diversity and number of projects demonstrates that social involvement of employees of the Bank has been improving and developing, while providing benefits to a wider group of people, as proven by the statistical data gathered.

In 2014 the Citi Handlowy Kronenberg Foundation organized a survey among the Citi volunteers. The respondents answered questions on improvement of their skills and competencies which directly translates to personal and professional effectiveness. Citi volunteers admitted that participation in social initiatives helped them to develop a series of skills and competencies, affecting their relations with other people and improving their quality of work. They noticed a particular increase in competencies in team work, communication skills and organizational competencies, but it is also worth noting the improvement in adaptation skills reported by 79% of the respondents. 88% of the respondents noticed an improvement in their competencies in terms of teamwork. An improvement in organizational skills was noticed by 83% of the respondents, while 82% of the respondents said that participation in volunteer work had considerably improved their communication skills. In addition, 83% of the respondents admitted that their awareness of social issues and ability to understand other people had improved considerably.

1.3 Environmental initiatives

One of the important rules effective in the Bank is taking care of the natural environment. The Bank is obliged to carry on its activities in accordance with rules of sustainable development. In 2007, with a resolution of the Management Board, the Bank introduced a comprehensive Environmental Management Plan. In 2012 the Bank adopted the Environmental Policy and implemented the Environmental Management System (SZŚ). In 2013 the Bank introduced the Energy Policy and implemented the Energy Management System (SZE). As part of the policies implemented, the Bank defined the following objectives: to increase the level of waste segregation and recycling; reduce CO_2 emissions, strive for the most effective management of utilities; minimize consumption of raw materials; achieve the most effective energy management; minimize consumption of power materials; support the purchase of power-saving products and services and achieve an improvement in the energy result.

Direct environmental impact

As part of the policies implemented, the Bank defined two main areas of environmental impact. The first is direct impact, resulting from activities of the Bank, such as consumption of water, paper, generated waste and pollution emitted to the atmosphere. The second is indirect impact, resulting from the services provided by the Bank. As part of the Systems implemented (SZŚ, SZE), locations of the Bank are monitored on an ongoing basis for consumption of electricity, water, gas, thermal energy, amount and type of waste generated and emissions of greenhouse gases.

From 2012 to 2014 the Bank undertook a number of initiatives as part of environmental campaigns aimed at achievement of the goals, such as the Energy, Water, Paper and Waste Campaign, designed to reduce the environmental footprint of the Bank. 2014 figures will be available when this report on the activities of Bank Handlowy w Warszawie S.A. in 2014 is published.

In 2013 the actions brought measurable benefits for the Bank and the environment, namely reduced electricity consumption by 1477 MWh, reduced water consumption by 5564 m3., and reduced CO2 emissions by 936.5 metric tons.

The effectiveness of the actions was confirmed by the certificate obtained in January 2013, which attested to the conformity of the Environmental Management System with ISO 14001:2004 requirements. In February 2014, the Bank as the first financial institution, obtained another certificate, which attested to the conformity of the Energy Management System with ISO 50001:2011 requirements.

Employee education

The Bank carries out an education and information campaign in the field of environmental protection, addressed to employees and suppliers of services. These include training courses and messages, articles made available on the intranet, and encouraging waste segregation, water and energy preservation, popularizing the Environmental Management System and Energy Management System. Every year, the Bank actively participates in the Earth Hour and Earth Week. In 2014, power was shut down in 24 branches during Earth Hour. During Earth Week, information was published on completed environmental friendly projects. An organic menu and freshly squeezed juices were provided to employees. Employees were provided with containers for their private electrical and electronic waste. A competition for an eco-project was announced among employees of the Bank. Under the awarded project "My city without electric and electronic waste", old electronic equipment was sent to the waste collection depot, Elektro eko. In return, the Educational Fund provided vouchers for the purchase of teaching aids, which were then provided to a school in the Ursus district of Warsaw.

Indirect environmental impact

Under agreements signed with Kreditanstalt für Wiederaufbau (KfW) and with funds of the Council of Europe Development Bank as part of SME&Municipal Finance Facility Energy Efficiency Window, in 2014 the Bank offered two lending programmes to its customers, under which Customers could finance projects leading to an increase in energy efficiency: financing of projects which meet eligibility criteria for investments increasing the energy efficiency and pursued by micro, small and medium enterprises in Poland; financing of projects which meet eligibility criteria for investments in terms of improvement of energy efficiency and use of renewable energy sources in Poland, pursued by local authorities at the level of the municipality, or entities which fulfil statutory tasks of municipalities (funds in this programme were fully utilized in 2014). Consequently, the Bank and its Customers were very successful in performance of programme goals. In accordance with preliminary energy audits, the accumulated environmental effect for over 120 projects financed under both programmes translated to a reduction in $CO2$ emissions by 31,702.00 tons and annual energy savings equal to 26,340.00 MWh.

In 2014 the Bank entered into another agreement with KfW for cooperation on ELENA performance (European Local Energy Assistance). As part of this agreement, in 2015 the Bank will receive further funds to support investments related to environmental protection, such as energy savings and/or reduction in GHG emissions.

1.4 Social commitment and community development

For years, Citi Handlowy Kronenberg Foundation has been active in the areas of financial education and business, protection of Polish cultural heritage and employee volunteering, paying particular attention to development of local communities.

As part of financial education and business, in 2014 the Foundation was involved in nine nationwide programmes, which fill the gap in the education system, by shaping consumer awareness and business attitudes among young people entering the market as well as among adults. This educates them how to be responsible borrowers, conscious savers or effective investors, and how to manage their own business.

In 2014 the Foundation continued activities in the field of cultural heritage. The most important activity in this field is the annual Aleksander Gieysztor Award. The purpose of the award is to support persons and institutions of particular merit for the Polish cultural heritage in Poland and abroad. In 2014, as part of the "Recovering works of art" programme, the Foundation, in cooperation with the Ministry of Foreign Affairs recovered a collection of 42 drawings and lithographs by artists such as Józef Chełmoński, Juliusz Kossak, Aleksander Orłowski and Leon Wyczółkowski. The recovered drawings and lithographs were officially handed over to the National Museum on 3 March 2014.

In 2014 the Foundation successfully implemented the Employee Volunteering Program. Citi Global Community Day was a key project, as in previous years. During the 9th edition of the project, volunteers with their friends became involved more than 2,000 times, and completed 187 projects. Other activities performed on a voluntary basis included volunteer integration trips, "Be a Santa Clause assistant" seasonal action and individual volunteering.

As part of the development of local communities, the Foundation continued its grant programme. In 2014 a total of 24 grants were awarded and cooperation with the Responsible Business Forum was continued as part of the LOB (Responsible Business League).

Citi Handlowy Kronenberg Foundation programmes

- **My Finances** is the largest financial education programme for young people in Poland. The programme is co-financed by the Leopold Kronenberg Foundation and the National Bank of Poland and implemented in schools by the Junior Achievement Young Enterprise Foundation Poland. In 2014, 100,000 students participated in the programme implemented by 1,650 teachers.

- **Savings Week** is an educational action in the media to promote savings and the skills of rational management of personal finances among Poles. Performed together with the Think! Foundation. The goal of the action is to develop systemic changes in education focused on management of personal finances. The media campaign for the 7th edition of "Attitudes of Poles to saving" survey reached 3 million people. As part of the “Saving Week” in 2014, a number of debates were held on financial education and on challenges faced by the young people in the labor market, organized in cooperation with universities, such as the Gdańsk University of Technology, the Economics and Management Faculty of the University of Szczecin, the University of Silesia in Katowice and the local government of the Świętokrzyskie Voivodeship. The events also featured competence workshops for university students organized in cooperation with Citi Handlowy HR experts. During the debates, the “First Million” student competition was held. The debates and competitions were attended by a total of 4,000 people. In addition, the University of Szczecin introduced optional classes for students, based on the “First Million” gaming platform.

Financial Independence of Women is a programme for women experiencing or exposed to economic violence. The programme is implemented in collaboration with the Women’s Rights Centre. In 2014 the programme reached 720 girls and women who experienced or were endangered with economic violence.

Bank Handlowy Award for an outstanding scientific contribution to the development of economics and finance – this competition aims to promote the most valuable theoretical publications in the field of economics and finance. A total of 37 publications were submitted to the 20th edition of the award.

Be Entrepreneurial is a financial education programme addressed to students of middle schools and secondary schools. It is implemented in cooperation with the Junior Achievement Young Enterprise Foundation Poland. The goal of the project is to pass down knowledge about widely understood enterprise and develop skills and competencies in this area by fulfilling practical student projects (middle schools) and establish and run a general company (secondary schools). Actions within the programme reached 9,240 students from 550 schools in Poland.

Business Startup is a two-part programme which supports young entrepreneurs (assistance in opening and running a business and support for existing companies). It is implemented in cooperation with Academic Incubators of Entrepreneurship. The objective of the project is to promote entrepreneurship among students and to help them make their business vision come true. A total of 350 students and 100 start-ups operating in the market participated in the 2014 edition.

Business in Female Hands is a new programme launched in May 2014 at the 4th Conference of the Woman Entrepreneur Network “How to Grow a Successful Company”. It is implemented in cooperation with the Woman Entrepreneurship Foundation. The objective of the programme is to create a cluster of women’s companies in Warsaw. Nearly 200 applicants enrolled for the first edition of the programme and 50 of them were selected as participants. 43 companies were established as part of the project.

Micro Company of the Year 2014 is a competition for owners of microbusinesses to promote the philosophy of micro-entrepreneurship. The results of the competition were announced on 17 June 2014. The winner was Sant-Tech sp. z o.o., a producer of sandblasters and other abrasive blasting technologies. A record high number of 272 businesses signed up for the 2014 competition.

Emerging Market Champions Award: a competition addressed to Polish companies which have been successful abroad. The first edition was held in 2014, under the patronage of Bronisław Komorowski, President of the Republic of Poland. The goal of the competition is to choose and award business leaders, Polish companies which have expanded and developed in international markets. A total of 36 companies were selected for the competition. The 2014 award was given to KGHM Polska Miedź S.A. The award was presented on 2 October 2014, during the European Forum for New Ideas (EFNI). Before award presentation, the “Competition in today’s world” discussion panel was held, with the participation of Adam Jasser, President of the Office for Competition and Consumer Protection and Marc C. Merlino, Head of Global Banking, Citi. 364 people participated in this event.

The Aleksander Gieysztor Award is the most prestigious award given annually to institutions or individuals in recognition of their outstanding achievements in the protection of Polish cultural heritage.The winner of the 15th edition was the Rasos Cemetery Restoration Association. The award was presented at the Warsaw Royal Castle on 6 February 2014.

Recovery of Polish Art is a new programme which aspires to recover the cultural heritage lost by Poland during WWII. In 2014, the Leopold Kronenberg Foundation at Citi Handlowy in cooperation with the Ministry of Foreign Affairs gave to the National Museum in Warsaw a collection of 42 drawings and lithographs by prominent Polish painters, such as Juliusz Kossak, Aleksander Orłowski, Leon Wyczółkowski and Józef Chełmoński, which had been recovered in late 2013.

- **Roots (Korzenie):** a programme under which the Foundation remembers the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In 2014, the Leopold Kronenberg Foundation at Citi Handlowy actively participated in the initiatives of the European Association for Banking and Financial History. The Foundation also continued the search in the St. Petersburg archives for the original statute of Bank Handlowy, dated 1870 and signed by the Chairman of the Council of State Grand Duke Constantine, who approved the inception of the Bank. More than 31,000 digital copies of materials relating to the history of Bank Handlowy and the Kronenbergs have been compiled.

- **Employee Volunteering Programme of Citi Handlowy** aims to promote the social commitment of present and former employees of the Bank. In 2014, 224 volunteer projects were implemented (including 187 as part of the Citi Global Community Days) and volunteers (including those from outside the organization) were involved 2,934 times.

- **Grant Program:** a contest through which the Citi Handlowy Kronenberg Foundation supports the most valuable projects carried out by non-profit organizations in the area of education and local development. 24 grants were given in 2014.

- **Responsible Business League (LOB)** is a programme that promotes the CSR concept as a business standard in the academic community. The programme is organized by the Responsible Business Forum in cooperation with the Kronenberg Foundation, Orange PGNiG and public universities. The next edition of the programme started in the academic year 2013/2014. 9,000 participants took place in the programme. The programme was organized under honorary patronage of the Ministry of Economy and the Ministry of Science and Higher Education.

2. Cultural patronage and sponsorship

In 2014, Citi Handlowy sponsored several national and international conferences. It supported the 6th European Economic Congress in Katowice where the Bank's experts participated in selected panel discussions. The three-day event featured more than 100 debates and brought together more than 6,000 representatives of business circles and public institutions in Poland and abroad. In June 2014, Citi Handlowy and Dom Maklerski Banku Handlowego were the main partners of the 18th edition of the Wall Street Conference, Poland's biggest event for individual investors. The experts of the Bank and DMBH participated in meetings and discussions devoted to the current situation of the stock market. The event provided an opportunity to meet representatives of the government and the financial sector.

Citi Handlowy was the patron of the Polish edition of Lee Kuan Yew's book Grand Master's Insights on China, the United States and the World. A debate about the publication was organized in February 2014. The discussion participants included Radosław Sikorski, the Polish Foreign Minister, and Edmund Wnuk-Lipiński, Honorary Rector of Collegium Civitas. The discussion inspired by the book focused on the future of Poland and its options of economic growth. It afforded an opportunity to discuss the potential of Polish companies. The book Grand Master's Insights on China, the United States and the World is a study of international and economic relations presented in questions and answers by the former Prime Minister of Singapore, statesman and author of the economic success of the city-state.

Together with Citi Handlowy Kronenberg Foundation, the Bank hosted the "Competition in today's world" panel discussion as part of European Forum for New Ideas, held in Sopot in October. At the event, a Competition Emerging Market Champions award was presented for the first time, to KGHM Polska Miedź S.A. The award is given to business leaders, Polish companies which have expanded and developed in international markets. In 2014 Citi Handlowy was also a partner to the 8th Regions Forum organized during the 24th Economic Forum in Krynica (2-4 September), and the Warsaw Capital Summit 2014 conference in November and the Modern Local Government Forum held in Warsaw (2 December).

Citi Handlowy was a partner during the Gala to commemorate 25 years of Polish economic transformation, a prestigious event co-organized by the "Together '89" Social Coalition. Invited guests included representatives of Polish authorities and administrative units, other major public institutions, companies and NGOs, as well as opinion-making and academic circles. Participants of historic events from 25 years ago were present, such as Prof. Leszek Balcerowicz.

Citi Handlowy continued its relations with the Polish Golf Union as its strategic sponsor for the fourth consecutive year. The Bank is regularly involved in a series of diverse golf events. The participation of the

Bank in the initiative goes back several years and is consistent with the activity of the Citi Group which supports golf globally.

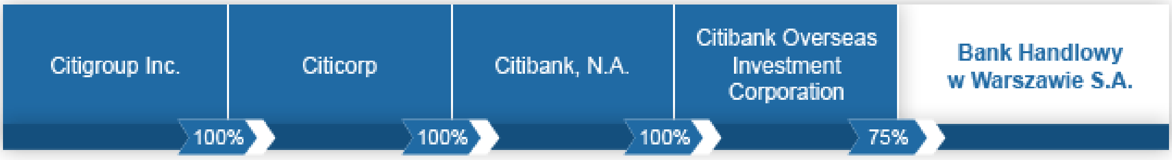
IX. Investor information

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

1.1 Shareholders

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

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



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

Among shareholders participating in the share capital of the Bank are Open Pension Funds which, in accordance with public information about the structure of assets as at 31 December 2014, held a total of 14.1% of shares of the Bank, which was a decrease of 0.3 pp against 31 December 2013.

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

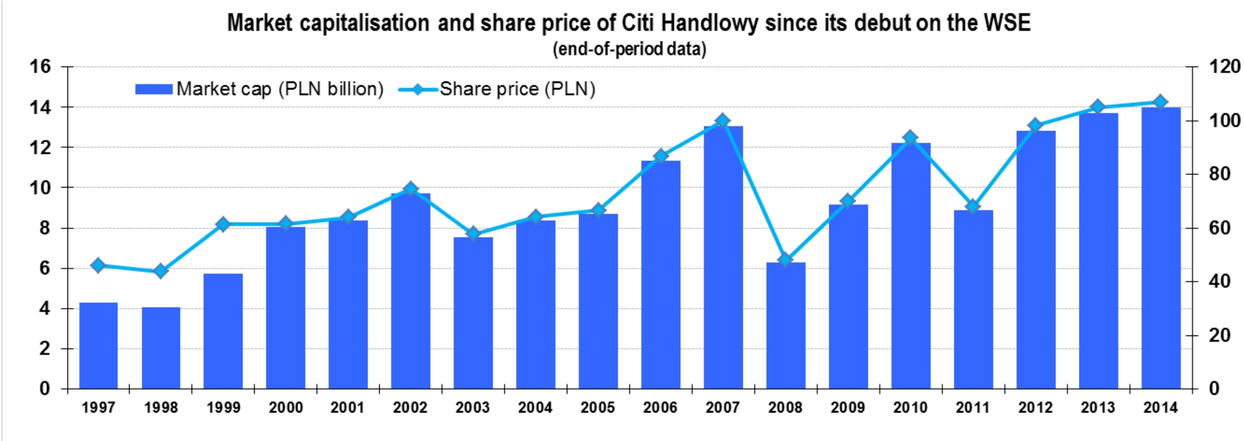
Shareholder	31.12.2014		31.12.2013	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
ING OFE	5 540 822	4,24%	5 713 025	4,37%
Aviva OFE Aviva BZ WBK	4 150 289	3,18%	3 952 560	3,03%
OFE PZU "Złota Jesień"	1 873 369	1,43%	1 890 020	1,45%
MetLife OFE (former Amplico OFE)	1 413 224	1,08%	1 425 785	1,09%
AXA OFE	1 075 125	0,82%	1 084 681	0,83%
Allianz Polska OFE*	1 066 160	0,82%	741 618	0,57%
Aegon OFE	871 601	0,67%	774 840	0,59%
PKO BP Bankowy OFE	765 123	0,59%	712 224	0,55%
Generali OFE	665 483	0,51%	671 397	0,51%
Pekao OFE	340 816	0,26%	338 011	0,26%
OFE Pocztylion	338 192	0,26%	371 263	0,28%
Nordea OFE	323 042	0,25%	496 843	0,38%
OFE Warta*			292 133	0,22%
Razem	**18 423 246**	**14,11%**	**18 464 400**	**14,13%**

Source: Annual information about the structure of assets of Open Pension Funds; Bank share closing price at the end of the period.
** In 2014 Allianz took over OFE Warta assets*

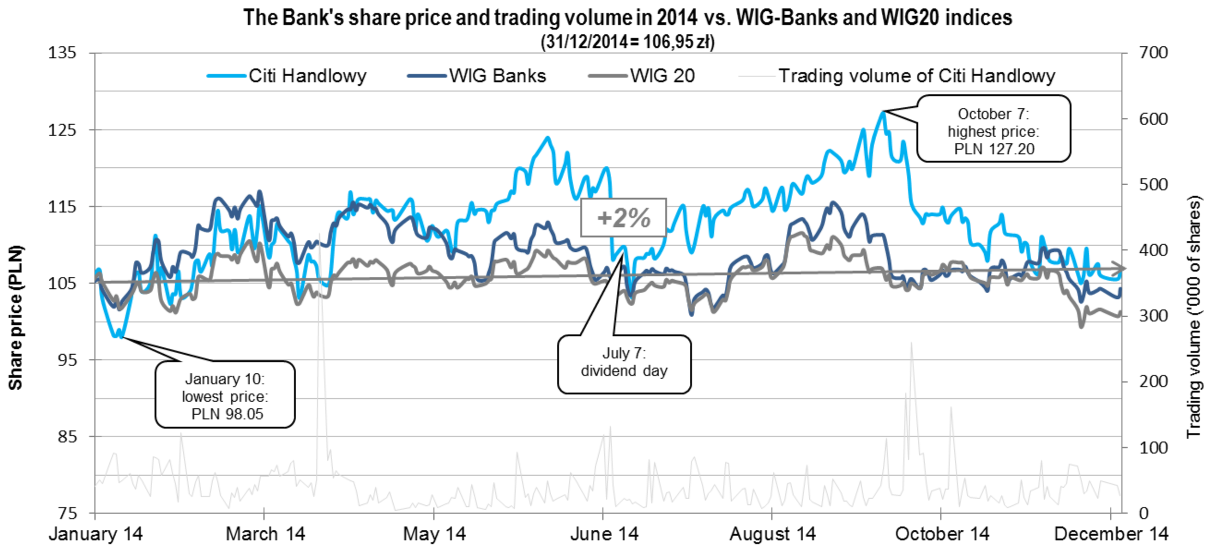
1.2 Performance of the Bank's shares on the WSE

In 2014, the Bank was included in the following indices: WIG, WIG20, WIG30, WIG Banki and WIGdiv. In addition, since the first edition, the Bank has been included in the RESPECT Index of socially responsible companies listed on the WSE Main Market. In September 2014 the Bank became a member of the prestigious MSCI Global Sustainability Index, an index of companies meeting high standards in the field of corporate governance, environmental protection and corporate social responsibility.

The share price of Citi Handlowy at the last trading session in 2014 (i.e. 30 December 2014) was PLN 106.95, i.e. compared to 30 December 2013 (PLN 105.00) and 2 January 2014 (PLN 106.80), it grew respectively by 1.9% and 0.1%. Compared to the end of 2013, the increase in the shares of the Bank positively stood out against WIG-20 WIG-Banki indices, which recorded a drop by 3.5% and 0.7% respectively. The WIG increased by 0.3%.



The capitalization of the Bank at the end of 2014 stood at PLN 14.0 billion (compared to PLN 13.7 billion at the end of 2013). The market price ratios were as follows: price to earnings (P/E) at 14.8 (14.1 in 2013); price to book value (P/BV) at 1.9 (1.9 in the previous year).



At the beginning of the year, the share price dropped to the record low of PLN 98.05 on 10 January. The price of Citi Handlowy shares recorded a continuous increase in the following quarters, and exceeded PLN 110 in Q1 and PLN 120 in Q2. The share price reached the maximum level of PLN 127.20 on 7 October.

Share prices fell in Q4 2014, however the minimum levels recorded at the beginning of the year were not exceeded.

The Bank's average share price in 2014 was PLN 112.83, and the average daily volume of trading in the Bank's shares stood at more than 40,900.

2. Dividend

On 10 March 2014, the Management Board of the Bank adopted a resolution on the proposed distribution of net profit for the year 2014 and recommended to allocate 99.9% of the stand-alone net profit of 2014 for a dividend, which implies a dividend per share at PLN 7.43.

The final decision on the distribution of the net profit for 2014 will be made by the General Meeting of the Bank.

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

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1997	130 000 000	6,21	1,40	22,5%
1998	93 000 000	3,24	1,00	30,8%
1999	186 000 000	5,08	2,00	39,4%
2000	130 659 600	1,57	1,00	63,8%
2001	163 324 500	1,25	1,25	99,8%
2002	241 720 260	1,86	1,85	99,6%
2003	241 720 260	1,86	1,85	99,7%
2004	1 563 995 412	3,17	11,97	*)
2005	470 374 560	4,51	3,60	79,8%
2006	535 704 360	4,75	4,10	86,4%
2007	620 633 100	6,19	4,75	76,8%
2008**	-	4,94	-	-
2009	492 586 692	4,02	3,77	94,0%
2010	747 372 912	5,72	5,72	99,9%
2011	360 620 496	5,52	2,76	50,0%
2012	756 519 084	7,72	5,79	75,0%
2013	934 216 140	7,15	7,15	99,9%
2014***	971 422 828	7,43	7,43	99,9%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits*
*** On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008*
**** As recommended by the Management Board on March 10, 2015.*

3. Rating

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

In 2014, 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 14 April 2014.

As at the end of 2014, 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 at the end of 2014, the Bank had the following ratings awarded by Fitch:

Long–term IDR *Outlook*	A- 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.*

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:

- regular contacts with analysts and investors, 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 Bureau (BRI), which has a broad knowledge of the Bank and the Capital Group;
- enabling media to be present at the General Meeting of the Shareholders of the Bank.

As part of investor relations activities in 2014, the Bank organized 5 conferences for analysts and investors on financial performance, major events and business achievements of the Bank.

Furthermore, members of the Management Board and representatives of the Investor Relations Bureau participated in regular meetings with investors and analysts (at the Bank's premises and at investor conferences).

In 2014 Citi Handlowy was again a partner of the nationwide educational programme organized by the Ministry of Treasury and addressed to individual stock exchange investors entitled "Citizenship Shareholding. How to be a conscious investor". The Bank supported actions of the educational programme and, among others, prepared two inserts on stock exchange investments for the opinion-making weekly, "Polityka". Last year, the Bank delivered a lecture at the Shareholding Forum during the largest conference addressed to individual investors called "Wall Street" and organized by the Association of Individual Investors.

X. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2014

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 2014

In 2014, 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 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, the 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 President of the Management Board.

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 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 each time the Polish Financial Supervision Authority of such an intention to purchase or 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 each time the Polish Financial

Supervision Authority of such an 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 a 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 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 a 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 a right, submit a motion to the Bank's Management Board in writing or in 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 the 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, no 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;
- The 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 at the day of signing this Report on Activities, the composition of the Company's Management Board was as follows:

Member of the Management Board	Professional experience
Sławomir S. Sikora *President of the Management Board*	Sławomir S. Sikora was appointed President of the Management Board of Bank Handlowy w Warszawie S.A. in 2003. From 2005 to 2008 he was a member of Citigroup Management Committee in New York. From 2001 to 2003 he was the President of the Management Board of Bank Amerykański w Polsce S.A. From 1994 to 2001 he worked in Powszechny Bank Kredytowy S.A. as the Head of Corporate and Investment Banking. From 1989 to 1994 he held a number of high ranking positions in the Ministry of Finance (such as the Head of the Department of Banking and Financial Institutions). Sławomir S. Sikora graduated from the Warsaw School of Economics. Sławomir Sikora is Vice-President of the Management Board of Polish Confederation Lewiatan and a member of the Emerging Markets Advisory Council at the Institute of International Finance (IIF) in Washington.
Brendan Carney *Vice-President of the Management Board*	Mr Brendan Carney became Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 21 May 2012. Brendan Carney worked for Citi Belgium from March 2010, where he was Head of Consumer Banking. The area hired 700 employees, with a total balance sheet of $8 billion, and annual revenues of $300 million. 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. During his term, the area achieved a 40% increase in the value of assets, revenues and gross profit, with an employee satisfaction level above 90%. In 2007 Portugal was named the best credit card area in EMEA. Brendan Carney was born and raised in Michigan, US. He is a graduate of Economics at the University of Michigan and Wharton School at the University of Pennsylvania.
Maciej Kropidłowski *Vice-President of the Management Board*	Maciej Kropidłowski became Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 19 March 2014. Mr Maciej Kropidłowski graduated from the University of Łódź, in the Faculty of Management. Since January 2014 he has been Head of Financial Markets Sub-Sector in Bank Handlowy w Warszawie S.A. In February 2014 he was appointed to the Supervisory Board of Dom Maklerski Banku Handlowego S.A. In Bank Handlowy w Warszawie S.A., he is responsible for Bank asset financing,

Member of the Management Board	Professional experience
	financial services in the monetary market, FX services, securities and derivatives trading. Mr Maciej Kropidłowski started his professional career in 1995 in Corporate Bank, Citibank (Poland) S.A. Four years later, he became Key Account in Global Customers Department in Citibank N.A. in Switzerland. In 2001, he returned to Poland and became Head of Treasury Sales in Bank Handlowy w Warszawie S.A. In this position, he was responsible for management of Treasury Product Sales and the Structurisation Department. From 2008 EMEA Head of Treasury Sales in Citibank N.A. in London, managed sales of FX products to corporate customers. He was crucial in developing the best e-Commerce platform for corporate customers and the CRM global system for Global Markets.
Barbara Sobala *Vice-President of the Management Board*	Ms Barbara Sobala graduated from the Cracow University of Economics. She has more than 20 years of extensive experience in banking, in particular in the area of risk management and corporate restructuring. She has worked for Citi Handlowy since 2005, when she became Head of Restructuring. Head of Corporate Banking Risk since 2012. Chairwoman of the Risk and Capital Management Committee, Vice-Chairwoman of the Capital Investments Committee and a member of the Asset and Liability Management Committee of the Bank. Before joining Bank Handlowy, Ms Barbara Sobala worked in Bank BPH for 13 years, among others as the Head of Restructuring and a member of the Credit Committee of the Bank. On 15 October 2013 she was appointed Vice-President of the Management Board of the Bank. She is also Head of Risk Management.
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 started to work in 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 Customers 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.
Czesław Piasek *Member of the Management Board*	Mr Czesław Piasek was appointed Member of the Management Board of Bank Handlowy w Warszawie S.A. on 20 May 2014. Mr Czesław Piasek graduated from the Faculty of Finance and Banking at the Warsaw School of Economics. Mr Czesław Piasek has been Head of Transactional Banking in Citi

Member of the Management Board	Professional experience
	Handlowy since September 2012 and is responsible for financial management and trade finance. In June 2013 he was appointed to Citigroup Treasury and Trade Management Committee EMEA. He has worked for Citi for nearly 20 years. He started in Citibank (Poland) S.A. at various management positions in sales management, customer relations and development of corporate and investment banking products. In 2007 he became Head of Transactional Banking in Hungary and was appointed to the Management Board of Citibank Hungary Zrt. Since 2011 he has worked as Regional Head of Citi Transactional Banking for 18 CEE markets, including Hungary, Czech Republic, Slovakia, Romania and Bulgaria. At the same time, he was appointed to the CEEMEA Citi Transaction Services Management Committee.

In 2014, Mr Misbah Ur-Rahman-Shah was Vice-President of the Management Board, but resigned on 18 March 2014.

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) Head of Compliance Department;
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 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 at the day of signing this Report on Activities, the composition of the Company's Supervisory Board was as follows:

Member of the Supervisory Board	Professional experience
Andrzej Olechowski *Chairman of the Supervisory Board*	Mr Andrzej Olechowski holds a Ph.D. in Economics. He 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*	Until recently, Mr Shirish Apte was Co-Chairman, Citi Asia Pacific Banking. From 2009 to 2011 he was CEO, Citi Asia Pacific, responsible for Southern Asia, comprising Australia, New Zealand, India and ASEAN states. He was a member of the Citigroup Executive Committee and Citi Operational Committee. Mr Shirish Apte has been working for Citi for more than 32 years. He was CEEMEA CEO, and prior to that, the Country Manager responsible for Citi operations in Poland, and Vice-President of Bank Handlowy w Warszawie S.A. Mr. Apte moved from India to London in 1993 as CEEMEA Senior Risk Manager before becoming Head of Corporate Finance and Investment Bank for the CEEMEA region, which includes India. Shirish Apte is a Chartered Accountant from the Institute of Chartered

Member of the Supervisory Board	Professional experience
	Accountants in England and Wales, a BA in commerce and an MBA from London Business School. Mr Shirish Apte has been the Vice-Chairman of the Supervisory Board of the Bank since 25 June 2003.
Adnan Omar Ahmed *Member of the Supervisory Board*	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 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 customers, including Corporate and Sovereign Wealth Funds, on their infrastructure, platform, and growth strategies. Before joining Morgan Stanley, Adnan 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*	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 Faculty of Foreign Trade at the Warsaw School of Economics (formerly SGPiS) and of the University of Warsaw's Faculty of Law and Administration. 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*	Mirosław Gryszka is a graduate of the Gdańsk Technical University. Since 1990, he has held managerial positions in Asea Brown Boveri Group and, in 1997-2013, he was the President of ABB Sp. z o.o. and Country Manager of

Member of the Supervisory Board	Professional experience
	ABB Group in Poland. Since September 2013 Baltic States, Russia, Central Asia and Caucasus Subregional Director in the ABB Group. Mirosław Gryszka has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 30 June 2000.
Frank Mannion *Member of the Supervisory Board*	Mr. Frank Mannion is the Citi Chief Financial Officer for Europe, the Middle East and Africa (EMEA). He assumed this position in January 2011 and has been responsible for a group of more than 1,000 employees in the entire Region. Mr. Mannion began his career in Ireland before moving to join PricewaterhouseCoopers in London. Mr. Mannion joined Citi in the UK in 1989 in the Planning and Analysis team. He has held various Finance roles, including Technology Finance Manager and Head of CMB EMEA Product Control. 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*	An investor and manager with extensive transactional, legal and regulatory experience, particularly in the areas of privatizations, mergers, acquisitions and project finance in power, natural resources and infrastructural sectors. Currently, Dariusz Mioduski is the CEO of Radwan Investments, his family investment holding company. Majority shareholder and Chairman of the Supervisory Board of Legia Warsaw football club. From 2007 to 2013 Chief Executive Officer and President of the Management Board of Kulczyk Investments SA., the largest private capital group in Poland, which mainly invests in the energy, raw materials and infrastructural sectors. From 1997 to 2007 Dariusz Mioduski was a partner in CMS Cameron McKenna, in charge of practice related to energy and infrastructure in Poland. From 1991 to 1997 a lawyer in NY and Warsaw office of White & Case LLP, and Vinson & Elkins LLP in Houston. Dariusz Mioduski is Vice-President of the Polish Business Roundtable, Vice-President of the Harvard Club of Poland and board member of the Harvard Law School Dean's Advisory. Mr. Mioduski is also a member of the Supervisory Boards of several public and non-public companies, such as Serinus Energy Inc. Dariusz Mioduski holds a Ph.D. in law from the Harvard Law School (1990) and a degree from University of St. Thomas in Houston (Bachelor of Arts, 1987). 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 graduated from the Faculty of Humanities of the Nicolaus Copernicus University in Toruń. At the same time she graduated psychology at the University of Hamburg and completed post-graduate studies at the Polish-French Institute of Insurance of the French Institute. She completed a series of training in management, sales, communication, marketing (including 3-year management studies) as part of LIMRA, a certified insurance industry programme, "Marketing Strategies for Executive Advancement" (LIMRA Executive Development Group). She also completed a number of courses in management, sales, finance, marketing and banking. Since 2002 Ms Anna Rulkiewicz has worked for LUX MED Sp. z o.o., initially as Member of the Management Board, Director of Sales and Marketing. Since 2007 she has been President of the LUX MED Group. Since the end of 2011 she has been Managing Director of LMG Försäkrings AB, a branch of which operates in Poland as LUX MED Ubezpieczenia. President of the Management Board of the Association of Private Medicine Employers. From 2001 to 2002 she managed Sales and Marketing in Credit Suisse Life & Pensions Investment Fund and Company and Winterthur Insurance Company, where she supervised departments of internal sales, external sales, group insurance, marketing and communications. From 1998 to 2001

Member of the Supervisory Board	Professional experience
	she worked for Zurich Towarzystwo Ubezpieczeń na Życie S.A. and Zurich Powszechne Towarzystwo Emerytalne S.A. As the Group Insurance and Training Director, she was responsible for the group insurance sector, including creation of services, recruitment system and training management. As the Director of Corporate Customers and Member of the Management Board of Zurich Towarzystwo Ubezpieczeń na Życie S.A. she was responsible for small business customers and corporate customers. From 1995 to 1998 she worked in Commercial Union Towarzystwo Ubezpieczeń na Życie S.A, where her last role was development of sales of group and individual insurance as part of bancassurance. Has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 June 2013.
Stanisław Sołtysiński *Member of the Supervisory Board*	Mr Stanisław Sołtysiński, Professor of Law. Prof. 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 now responsible for all Citi operations in Western Europe (19 countries), and is the Corporate Bank EMEA Head. He works in London. Citi provides a broad range of corporate banking, investment banking retail and transactional banking, as well as services covering securities and markets in the entire Western Europe Region, one of Citi's largest markets globally. Until recently Mr Zdenek Turek was Citi CEE CEO and Country Corporate Officer in Russia and worked in Moscow. Citi operations in this region covered 8 CEE countries. In Russia, Citi is one of the largest and best capitalised banks in the country, with 2,000 corporate customers and more than one million retail customers, served by 4,000 employees in more than 50 branches in 12 cities. Prior to that 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 has been a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.

Member of the Supervisory Board	Professional experience
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 customer 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.
Anil Wadhwani *Member of the Supervisory Board*	Mr Anil Wadhwani became EMEA Head of Consumer Bank and Corporate Bank in October 2013. Before that, from February 2012, he was Head of Retail Cards and Credit Area in Asia and Pacific, responsible for the entire range of Citi and partner (co-branded) payment products offered by Citi in the region. In August 2012 he became additionally responsible for Retail Banking in South-East Asia, with countries such as Indonesia, Philippines, Singapore, IPB/NRI, Thailand, Vietnam and Guam. Mr Wadhwani became Head of Retail Markets in Singapore in September 2008, and in May 2010 he became additionally responsible for Citibanking in the region. His retail activities changed the competitive environment in Singapore, where he supervised distribution and development, increasing Citi recognition and confirming Citi leading market position. As the Citibank Singapore Limited CEO, he cooperated with the Supervisory Board to ensure proper bank management in the changing regulatory environment. As part of his regional duties, Mr Wadhwani cooperated with individual countries to create the Citibanking segment, by defining the customer relation model, creating a convincing offering and increasing segment profitability. Mr Anil Wadhwani has worked for Citi since 1992. Since then, he held various prominent positions in Credit Card and Retail Banking and managed Retail Banking in India. He developed the Citibank Suvidha initiative, which works in various regions and India and is seen as a unique model of customer acquisition and product delivery, and a model for many "Bank-At-Work" Citi initiatives in the world. Mr Wadhwani holds a B.A. in commerce and M.A. in management from Mumbai University. Has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 24 June 2014.

In 2014, Mr Marc Luet was a member of the Supervisory Board until 24 June 2014.

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 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 the:

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 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) Anna Rulkiewicz – Member of the Committee,

Marc Luet was a member of the Committee until 24 June 2014.

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 the effectiveness of the internal control and internal audit systems, monitoring risk management, monitoring audit performance and monitoring 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 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) Dariusz Mioduski – Member of the Committee,
5) Andrzej Olechowski – Member of the Committee,
6) Stephen R. Volk – Member of the Committee,
7) Anil Wadhwani – Member of the Committee.

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

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

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

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

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

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

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

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

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

Meetings of the Committee are chaired by the Chairman of the Audit Committee. In the Chairman's absence, meetings are chaired by the 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 secrets, 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 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 have 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, 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 2014:

PLN'000	Salaries, awards and short-term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	1,990	310	2,928
Brendan Carney	1,973	249	590
Maciej Kropidłowski (1)	1,094	6	-
Barbara Sobala	898	76	210
Witold Zieliński	1,090	109	544
Iwona Dudzińska	952	112	664
Czesław Piasek (2)	626	61	265
Byli członkowie Zarządu:			
Misbah Ur-Rahman-Shah (3)	2,183	180	4,208
Robert Daniel Massey JR (4)	-	136	500
Sonia Wędrychowicz-Horbatowska (5)	-	-	367
	10,806	**1,239**	**10,276**

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

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's 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	2187
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

"Base salaries and awards" include gross base salary as well as awards paid 2014 and 2013.

"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 a company car, insurance policy premiums, holiday leave equivalent 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 2014 and 2013 and paid management options and long and short terms in the form of phantom stocks awards.

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 2014 and 2013:

PLN'000	**2014**	**2013**
Andrzej Olechowski	338	228
Igor Chalupec	242	185
Mirosław Gryszka	202	168
Dariusz Mioduski	146	120
Stanisław Sołtysiński	164	30
Anna Rulkiewicz	189	168
Former members of the Supervisory Board:		
Krzysztof L. Opolski	-	70
	1,281	**969**

Remuneration paid and payable in respect of the years 2014 to the persons managing subsidiaries of the Bank amounted to PLN 5,812 thousand(In 2013: PLN 5,834 thousand)

The persons supervising subsidiaries of the Bank did not receive any remuneration in either 2014 or 2013.

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 at 31 December 2014 is presented in the table below:

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

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 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	6
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

As at 31 December 2014 and 31 December 2013, 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 the 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 the case of one 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 2014. 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 2014 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 2013 was made by PricewaterhouseCoopers Sp. z o.o.

The auditor's net fees under the agreements (paid or payable) for the years 2014 and 2013 are presented in the table below:

For the year *PLN'000*	**2014**	**2013**
Bank (the parent company) audit fees (1)	369	410
Bank (the parent company) review fees (2)	153	170
Subsidiary companies audit fees (3)	230	255
Other assurance fees (4)	161	165
	913	**1,000**

(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 2014 signed on 6 May 2014).

(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 2014 signed on 6 May 2014).

(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; Mr. Maciej Kropidłowski, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Mr. Witold Zieliński, Vice-President of the Management Board; Ms. Iwona Dudzińska, Member of the Management Board and Mr. Czesław Pasek, Member of the Management Board, the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2014 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 2014 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 2014.

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 2014 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	Signature
13.03.2015 roku	Sławomir S. Sikora	President of the Management Board	
13.03.2015 roku	Brendan Carney	Vice-President of the Management Board	
13.03.2015 roku	Maciej Kropidłowski	Vice-President of the Management Board	
13.03.2015 roku	Barbara Sobala	Vice-President of the Management Board	
13.03.2015 roku	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
13.03.2015 roku	Iwona Dudzińska	Member of the Management Board	
13.03.2015 roku	Czesław Piasek	Member of the Management Board	