citi handlowy

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.**

Report on the financial statements

We have audited the accompanying consolidated financial statements of the Bank Handlowy w Warszawie S.A. Group (hereinafter called "the Group"), having Bank Handlowy w Warszawie S.A., Senatorska 16 Street, Warsaw, as its parent company (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated income statement for the year from 1 January to 31 December 2015, the consolidated statement of comprehensive income for the period from 1 January to 31 December 2015, the consolidated statement of changes in equity, the consolidated cash flow statement for the financial year and explanatory notes to the financial statements containing additional information on adopted accounting policies and other explanatory notes.

Management and Supervisory Board's Responsibility for the consolidated financial statements

The Parent Company's Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and for the preparation of the Report on the Group's operations and for the correctness of the accounting records in accordance with applicable laws. The Parent Company's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board and Supervisory Board are obliged to ensure that the consolidated financial statements and the Report on the Group's operations meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended).

Auditor's Responsibility

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion and the report on whether the consolidated financial

Independent Registered Auditor's Report (cont.)

statements present, in all material respects, a true and fair view of the Group's financial position and its financial results in accordance with the regulations and the applicable accounting policies and on the correctness of the accounting records constituting the basis for their preparation.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

a. give a true and fair view of the Group's financial position as at 31 December 2015 and its financial performance and its cash flows for the year from 1 January to 31 December 2015, in accordance with the International Financial Reporting Standards as adopted by the European Union;

b. comply in terms of form and content with the applicable laws, including the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions of recognizing as equal information required by the law of an other state, which is not a member state ("the Decree" – Journal of Laws of 2014, item 133) and the Bank's Memorandum of Association;

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

Independent Registered Auditor's Report (cont.)

Report on Other Legal and Regulatory Requirements

Opinion on the Report on the Group's operations

The information contained in the Report on the Group's operations for the year from 1 January to 31 December 2015 accommodate the requirements of article 49 paragraph 2 of the Accounting Act, the Decree and the Banking Act dated 29 August 1997 ("the Banking Act" - Journal of Laws of 2015, item 128, with further amendments) and is consistent with the information contained in the audited consolidated financial statements.

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

The financial information included in section IV "Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A." of the Report on the Group's operations were audited in accordance with the scope described in *Auditor's Responsibility* paragraph and requirements of the Banking Act. In our opinion, financial information included in section IV "Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A." of the Report on the Group's operations were prepared, in all material respects, in accordance with the Banking Act requirements.

In the Statement of Corporate Governance, which is a separate part of the Report on the Group's operations, the Group included information in accordance with the scope defined in the Decree. This information is consistent with the applicable regulations and with the information contained in the consolidated financial statements.

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

Anna Bączyk

Key Registered Auditor
No. 11810

Warsaw, 7 March 2016

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2015.

Contents:

I. General information about the Group

a. Bank Handlowy w Warszawie S.A. ("the 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, 2015 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 2015, 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 2015, 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 2015
Dom Maklerski Banku Handlowego S.A.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2015
Handlowy-Leasing Sp. z o.o.	Subsidiary (100.00%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2015
Handlowy Investments S.A.	Subsidiary (100.00%)	Full	Grant Thornton Lux Audit S.A.	audit in progress	29 February 2016*
PPH Spomasz Sp. z o.o. in liquidation	Subsidiary (100.00%)	Full	Not audited	-	31 December 2015
Handlowy-Inwestycje Sp. z o.o.	Subsidiary (100.00%)	Equity	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2015

* 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
- Witold Zieliński — Vice President of the Management Board
- Barbara Sobala — Vice President of the Management Board
- Maciej Kropidłowski — Vice President of the Management Board
- David Mouillé — Vice President of the Management Board from 11 August 2015
- Brendan Carney — Vice President of the Management Board to 30 June 2015
- Czesław Piasek — Member of the Management Board
- Iwona Dudzińska — Member of the Management Board to 31 July 2015

On 3 December 2015, Mrs. Katarzyna Majewska was appointed as the Member of the Management Board for a 3-year term, effective from 11 January 2016.

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

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 2015 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 Anna Bączyk (no. 11810).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 7/V/2015 of the Supervisory Board of Bank Handlowy w Warszawie S.A. dated 20 March 2015 in accordance with paragraph 18 of the Parent Company's Memorandum of Association.

c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2015, item 1011).

d. The audit was conducted in accordance with an agreement dated 10 July 2015, in the following periods:

- interim audit from 1 November 2015 to 31 December 2015;
- final audit from 4 January 2016 to 7 March 2016.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2015 (selected lines)

	31.12.2015 PLN '000	31.12.2014 PLN '000	Change PLN '000	Change (%)	Structure 31.12.2015 (%)	Structure 31.12.2014 (%)
ASSETS						
Cash and balances with Central Bank	2,170,237	1,522,949	647,288	42.5	4.4	3.1
Amounts due from banks	757,103	2,065,685	(1,308,582)	(63.3)	1.5	4.1
Financial assets held-for-trading	6,987,284	12,721,573	(5,734,289)	(45.1)	14.1	25.5
Hedging derivatives	1,795	-	1,795	-	-	-
Debt securities available-for-sale	18,351,259	14,435,099	3,916,160	27.1	37.1	29.0
Equity investments valued at equity method	7,768	7,765	3	-	-	-
Other equity investments available-for-sale	67,744	8,211	59,533	725.0	0.1	-
Amounts due from customers	18,975,471	16,770,482	2,204,989	13.1	38.4	33.7
Tangible fixed assets	354,080	366,857	(12,777)	(3.5)	0.7	0.7
Intangible assets	1,371,879	1,387,745	(15,866)	(1.1)	2.8	2.8
Receivables due to current income tax	20,673	13,255	7,418	56.0	-	-
Asset due to deferred income tax	161,586	157,319	4,267	2.7	0.3	0.3
Other assets	277,985	384,612	(106,627)	(27.7)	0.6	0.8
Non-current assets held-for-sale	1,928	2,113	(185)	(8.8)	-	-
TOTAL ASSETS	**49,506,792**	**49,843,665**	**(336,873)**	**(0.7)**	**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 2015 (selected lines) (cont.)

	31.12.2015	31.12.2014	Change		Structure	
	PLN '000	PLN '000	PLN '000	(%)	31.12.2015 (%)	31.12.2014 (%)
LIABILITIES						
Amounts due to banks	6,963,561	5,122,576	1,840,985	35.9	14.1	10.3
Financial liabilities held-for-trading	3,247,523	6,770,922	(3,523,399)	(52.0)	6.6	13.5
Hedging derivatives	112,383	-	112,383	-	0.2	-
Amounts due to customers	31,586,303	29,632,598	1,953,705	6.6	63.8	59.4
Provisions	23,494	26,409	(2,915)	(11.0)	-	0.1
Liabilities due to current income tax	-	186	(186)	(100.0)	-	-
Other liabilities	722,872	880,214	(157,342)	(17.9)	1.5	1.8
TOTAL LIABILITIES	**42,656,136**	**42,432,905**	**223,231**	**0.5**	**86.2**	**85.1**
EQUITY	**6,850,656**	**7,410,760**	**(560,104)**	**(7.6)**	**13.8**	**14.9**
TOTAL LIABILITIES AND EQUITY	**49,506,792**	**49,843,665**	**(336,873)**	**(0.7)**	**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 2015 (selected lines)

	2015	2014	Change		Structure	
	PLN '000	PLN '000	PLN '000	(%)	2015 (%)	2014 (%)
Interest and similar income	1,232,413	1,489,071	(256,658)	(17.2)	51.0	51.8
Interest expense and similar charges	(255,813)	(325,128)	69,315	(21.3)	15.8	19.1
Net interest income	**976,600**	**1,163,943**	**(187,343)**	**(16.1)**		
Fee and commission income	709,435	726,196	(16,761)	(2.3)	29.4	25.3
Fee and commission expense	(78,085)	(107,265)	29,180	(27.2)	4.8	6.3
Net fee and commission income	**631,350**	**618,931**	**12,419**	**2.0**		
Dividend income	7,382	5,783	1,599	27.7	0.3	0.2
Net income on trading financial instruments and revaluation	293,118	382,160	(89,042)	(23.3)	12.2	13.3
Net gain on debt investment securities	145,246	229,922	(84,676)	(36.8)	6.0	8.0
Net gain on capital investment instruments	2,232	6,429	(4,197)	(65.3)	0.1	0.2
Net gain/(loss) on hedge accounting	7,949	(379)	8,328	(2,197.4)	0.3	-
Net other operating (expense)/income	(12,170)	10,585	(22,755)	(215.0)	0.7	0.4
General administrative expenses	(1,207,875)	(1,202,516)	(5,359)	0.4	74.4	70.4
Depreciation expense	(70,422)	(71,364)	942	(1.3)	4.3	4.2
Profit on sale of other assets	102	6,384	(6,282)	(98.4)	-	0.2
Net impairment due to financial assets and provisions value losses for granted financial liabilities and guarantees granted	17,202	17,804	(602)	(3.4)	0.7	0.6
Operating profit	**790,714**	**1,167,682**	**(376,968)**	**(32.3)**		
Share in net profits of entities valued with the equity method	61	28	33	117.9	-	-
Profit before tax	**790,775**	**1,167,710**	**(376,935)**	**(32.3)**		
Income tax expense	(164,356)	(220,398)	56,042	(25.4)		
Net profit	**626,419**	**947,312**	**(320,893)**	**(33.9)**		
Total income	2,415,140	2,874,362	(459,222)	(16.0)	100.0	100.0
Total expense	(1,624,365)	(1,706,652)	82,287	(4.8)	100.0	100.0
Profit before tax	**790,775**	**1,167,710**	**(376,935)**	**(32.3)**		

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 2015

	2015	2014	Change	
	PLN '000	PLN '000	PLN '000	(%)
Net profit	**626,419**	**947,312**	**(320,893)**	**(33.9)**
Other comprehensive income that may be reclassified to income statement:				
Net valuation of financial assets available-for-sale	(216,486)	95,836	(312,322)	(325.9)
Foreign exchange differences	(6)	844	(850)	(100.7)
Other comprehensive income that may not be reclassified to the income statement:				
Net actuarial profits/(losses) on specific services program valuation	886	(5,898)	6,784	(115.0)
Other comprehensive income after tax	**(215,606)**	**90,782**	**(306,388)**	**(337.5)**
Total comprehensive income for the period	**410,813**	**1,038,094**	**(627,281)**	**(60.4)**

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:

	2015	2014
Profitability ratios		
Return on equity (net profit / average net assets) (1)	8.8%	12.9%
Return on assets (net profit / average assets) (1)	1.3%	2.0%
Interest margin (interest income / average working assets) – (interest expense / average interest-bearing liabilities) (1) (3)	2.0%	2.5%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (1) (3)	2.6%	3.3%
C/I ratio (general administrative expenses and depreciation expense / profit/loss on banking activities) (2)	62.3%	52.6%
Cost of borrowings (interest expense / average interest-bearing liabilities) (1)	0.6%	0.8%

	31.12.2015	31.12.2014
Asset quality ratios		
Impaired amounts due from customers to gross amounts due from customers	3.6%	5.3%
Provision coverage of not impaired loans and advances	0.3%	0.4%
Provision coverage of impaired loans and advances	74.4%	77.5%
Other ratios		
Common Equity Tier I Capital ratio (4)	17.1%	17.5%
Common Equity Tier I (PLN'000)	4,781,008	4,944,496
Total regulatory capital requirement (PLN'000)	2,238,956	2,256,721

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 profit before tax less general administrative expenses, depreciation expense and net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted.
3) Interest-bearing assets defined as balances with the central bank (excluding cash), amounts due from banks and from customers and investment securities and derivative instruments.
4) Ratio calculated according to the current at a given reporting moment; rules as of 31 December 2015 and 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.

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 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 49,506,792 thousand. During the year total assets decreased by PLN 336,873 thousand, i.e. by 0.7%.

- In 2015 assets were primarily financed by amounts due to customers. As at 31 December 2015, the amounts due to customers amounted to PLN 31,586,303 thousand and represented 63.8% of total liabilities and equity – share of amount due to customers in total equity and liabilities increase by 4.4 p.p. as compared to the balance as of the end of 2014. An increase of amounts due to customers by PLN 1,953,705 thousand (by 6.6%) was mainly driven by increase of deposits from non-financial sector entities by PLN 1,509,896 thousand.

- As at the balance sheet date, amounts due to banks amounted to PLN 6,963,561 thousand, which represented an increase by PLN 1,840,985 thousand, i.e. by 35.9% compared to the previous year. This change was mainly due to an increase of term deposits (by PLN 2,090,481 thousand, i.e. by 88.2%), with a simultaneous decrease in the balance of loans and advances received and liabilities due to sold securities under repurchase agreements(by PLN 255,923 thousand in total, i.e. by 12.3%).

- As at 31 December 2015 total equity amounted to PLN 6,850,656 thousand. A decrease of total equity by PLN 560,104 thousand, i.e. by 7.6% compared to the previous year was mainly due to:
  - payment of a dividend by a Parent Company from the profit in the amount of PLN 970,917 thousand;
  - net profit generated by the Group in the amount of PLN 626,419 thousand in the audited financial year;
  - a decrease of revaluation reserve due to valuation of financial assets available-for-sale (net) by PLN 216,486 thousand.

- As at 31 December 2015, financial assets held-for-trading amounted to PLN 6,987,284 thousand and comprised mainly Treasury bonds in the amount of PLN 4,279,640 thousand and derivative instruments in the amount of PLN 2,267,132 thousand. The balance of the Treasury bonds decreased by PLN 2,664,666 thousand, i.e. by 38.4% and derivative instruments valuation decreased by PLN 3,357,328 thousand, i.e. by 59.7%.

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

- As at 31 December 2015, decrease in the valuation of derivative instruments on the assets side (financial assets held-for-trading) as well as the liabilities side (financial liabilities held-for-trading) was primarily due to a decrease in value and number of transactions of interest rate swaps (a decrease by PLN 3,266,152 thousand, i.e. by 68.1% on the assets side and by PLN 3,275,087 thousand, i.e. by 66.7% on the liabilities side). A decrease in the value and number of transactions was in particular due to portfolio compression performed by the Bank according to the Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR).

- As at the end of the audited year, amounts due from banks amounted to PLN 757,103 thousand and decreased by PLN 1,308,582 thousand, i.e. by 63.3% mainly due to a decrease of amounts payable as a result of purchasing securities with a repurchase agreement (a decrease by PLN 466,528 thousand) and a decrease in the balance of deposits (a decrease by PLN 378,837 thousand).

- As at 31 December 2015, the net balance of amounts due from customers amounted to PLN 18,975,471 thousand, which was an increase by PLN 2,204,989 thousand, i.e. by 13.1% compared to the previous year. In the amounts due from customers, 99.3% of the balance was the amounts due from customers of the Bank. As at the end of 2015, the gross loan portfolio amounted to PLN 19,560,877 thousand and comprised mainly of loans and advances due from non-financial sector entities in the gross amount of PLN 15,254,953 thousand, receivables related to securities bought under repurchase agreements in the gross amount of PLN 1,356,247 thousand, purchased receivables in the gross amount of PLN 1,102,720 thousand and unlisted debt securities from non-financial sector entities in the gross amount of PLN 1,075,891 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 1,112,038 thousand, as well as an increase of receivables related to securities bought under repurchase agreements in the gross amount of PLN 756,348 thousand.

- The balance of impairment allowances for amounts due from customers decreased by PLN 213,490 thousand, i.e. by 26.7% and as at 31 December 2015 amounted to PLN 585,406 thousand (the Bank's balance of impairment allowances for amounts due from customers amounted to PLN 577,396 thousand and represented 98.6% of total Group allowance balance). This drop resulted mainly from a decrease in the impairment allowances of amounts due from the portfolio (a decrease of PLN 163,582 thousand, i.e. by 42.2%), mainly as a result of the partial sale of NPL retail exposure and improvement in the quality of the portfolio. As at 31 December 2015, the share of impaired loans and advances in the total balance of loans and advances decreased by 1.7 pp. and amounted to 3.6%. The coverage ratio of impairment allowances for impaired loans and advances amounted to 74.4% and decreased by 3.1 pp. compared to the end of 2014.

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

- As at 31 December 2015, debt securities available for sale amounted to PLN 18,351,259 thousand and represented 37.1% of total assets. A growth of this balance by PLN 3,916,160 thousand, i.e. 27.1% was due to an increase in the portfolio of Treasury bonds and bonds portfolio issued by other banks which increased as at the end of the audited year by PLN 8,088,942 thousand and PLN 326,968 thousand respectively. At the same time, the bills portfolio issued by the central bank decreased by PLN 4,499,750 thousand.

- As at 31 December 2015, the Bank performed a revaluation of fair value of equity investment available-for-sale in VISA Europe Ltd. to the amount of PLN 63,323 thousand. The difference in valuation was booked in Other comprehensive income.

- Revaluation reserve as at 31 December 2015 was negative – PLN (163,613) thousand (at the end of 2014, the revaluation reserve was positive and amounted to PLN 52,873 thousand). Change was mainly driven by revaluation of financial assets available for sale. During 2015, the Bank established hedging relationship under hedge accounting of fair value due to minimizing the risk of interest rates, on which fixed rate securities available-for-sale were exposed. Part of the change in fair value valuation of hedge instruments involved in secured risk was recognized in the income statement.

- The profit before tax for the audited year amounted to PLN 790,775 thousand and was lower than the profit before tax for 2014 by PLN 376,935 thousand, i.e. by 32.3%. In the profit before tax, 98.6% of the Group's profit before tax in the amount of PLN 780,041 thousand, was related to the Bank. The profit before tax comprised mainly of: net interest income of PLN 976,600 thousand, net fee and commission income of PLN 631,350 thousand, net income on trading financial instruments and revaluation of PLN 293,118 thousand and net gain on debt investment securities of PLN 145,246 thousand, reduced mainly by general administrative expenses of PLN 1,207,875 thousand.

- Net interest income amounted to PLN 976,600 thousand and decreased by PLN 187,343 thousand, i.e. by 16.1% compared to the previous year. A drop of the net interest income was due to a decrease of interest income by PLN 256,658 thousand. At the same time, interest expense decreased by PLN 69,315 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 168,612 thousand and PLN 65,758 thousand respectively. A decrease of interest income and expense was mainly due to the decrease of market interest rates.

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

- Net fee and commission income amounted to PLN 631,350 thousand in the audited year and was PLN 12,419 thousand (i.e. 2.0%) higher, compared to the previous year. This increase was mainly due to a decrease of fee and commission expense by PLN 29,180 thousand, which was mainly a result of a decrease of expense from payment and credit cards that amounted to PLN 25,271 thousand. At the same time, fee and commission income decreased by PLN 16,761 thousand. The net fee and commission income of Dom Maklerski Banku Handlowego represented 5.9% of total net fee and commission income.

- General administrative expenses amounted to PLN 1,207,875 thousand in the audited year (including administrative expenses, which amounted to PLN 642,112 thousand and staff expenses which amounted to PLN 565,763 thousand) and increased by PLN 5,359 thousand, i.e. by 0.4% compared to the previous year. An increase of general administrative expenses was mainly due to an increase of the costs related to the Bank Guarantee Found by PLN 93,452 thousand. Other costs show a decreasing trend. Staff expenses decrease by PLN 14.231 thousand (i.e. by 2.5%). Costs of external services related to the distribution of banking products, building maintenance and rent costs and Advertising and marketing costs decreased by PLN 80,593 thousand in total (i.e. by 42.6%).

- Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted were positive and amounted to PLN 17,202 thousand (in 2014 it was positive and amounted to PLN 17,804 thousand). Net impairment comprised in particular of a reversal of impairment losses on financial assets related to receivables from sold retail portfolio, previously written-off, in the amount of PLN 27,929 thousand.

- As a result, in the audited year, the Group generated a net profit of PLN 626,419 thousand, which was lower by PLN 320,893 thousand, i.e. by 33.9% 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 consolidation of equity items were carried out properly in all material respects.

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

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

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

g. The consolidated financial statements of the Group for the period from 1 January to 31 December 2014 were approved by Resolution No. 5 passed by the General Shareholders' Meeting of the Parent Company on 22 June 2015 and filed with the National Court Register in Warsaw on 26 June 2015.

h. During the audit performed, we have not identified any significant instances of Bank's non-compliance with banking regulatory norms during the period from 1 January 2015 to the day of issuance of this report. As at 31 December 2015, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolutions of Polish Financial Supervisory Authority and the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, included banking regulatory norms in relation, among others, to the following:
   - concentration of credit risk,
   - concentration of investments in shares,
   - classification of loans and guarantees to risk groups and creation of provisions for the risk associated with activities of banks,
   - liquidity measures,
   - level of obligatory reserve,
   - capital adequacy.

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

i. As at 31 December 2015 the capital adequacy ratio of the Bank amounted to 17.08% and was correctly determined in accordance with CRR. This statement is based on recalculation of the quotient of own funds amounting to PLN 4,781.0 mln divided by risk weighted assets amounting to PLN 27,987.0 mln as per COREP reporting prepared by the Bank as at the balance sheet date.

j. The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.

k. The information in the Directors' Report for the year from 1 January to 31 December 2015 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2014, item 133) and is consistent with that presented in the financial statements.

V. Final information

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 7 March 2016.

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 7 March 2016, concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

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

Anna Bączyk

Group Registered Auditor, Key Registered Auditor
No. 11810

Warsaw, 7 March 2016

Selected financial data

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2015	2014	2015	2014
Interest income	1,232,413	1,489,071	294,497	355,446
Fee and commission income	709,435	726,196	169,527	173,345
Profit before tax	790,775	1,167,710	188,964	278,736
Net profit	626,419	947,312	149,689	226,127
Total comprehensive income	410,813	1,038,094	98,168	247,797
Increase/decrease of net cash	621,437	612,753	148,499	146,266
Total assets	49,506,792	49,843,665	11,617,222	11,694,077
Amounts due to banks	6,963,561	5,122,576	1,634,063	1,201,834
Amounts due to customers	31,586,303	29,632,598	7,412,015	6,952,255
Shareholders' equity	6,850,656	7,410,760	1,607,569	1,738,676
Share capital	522,638	522,638	122,642	122,619
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	52.43	56.72	12.30	13.31
Capital adequacy ratio (in %)	17.1	17.5	17.1	17.5
Earnings per share (PLN/EUR)	4.79	7.25	1.15	1.73
Diluted net earnings per share (PLN/EUR)	4.79	7.25	1.15	1.73
Declared or paid dividends per share (PLN/EUR)*	4.68	7.43	1.10	1.74

**The presented ratios are related to declared dividend from the appropriation of the 2015 profit and dividend paid in 2015 from the appropriation of the 2014 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 2015 - PLN 4.2615 (as at 31 December 2014: PLN 4.2623); 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 2015 – PLN 4.1848 (in 2014: PLN 4.1893).*

The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2015

Contents

Consolidated income statement

PLN'000	For the period Note	2015	2014
Interest and similar income	4	1,232,413	1,489,071
Interest expense and similar charges	4	(255,813)	(325,128)
Net interest income	4	**976,600**	**1,163,943**
Fee and commission income	5	709,435	726,196
Fee and commission expense	5	(78,085)	(107,265)
Net fee and commission income	5	**631,350**	**618,931**
Dividend income	6	**7,382**	**5,783**
Net income on trading financial instruments and revaluation	7	**293,118**	**382,160**
Net gain on debt investment securities available-for-sale		**145,246**	**229,922**
Net gain on capital investment instruments available-for-sale		**2,232**	**6,429**
Net gain on hedge accounting	8	**7,949**	**(379)**
Other operating income	9	40,139	52,266
Other operating expenses	9	(52,309)	(41,681)
Net other operating income	9	**(12,170)**	**10,585**
General administrative expenses	10	**(1,207,875)**	**(1,202,516)**
Depreciation expense	11	**(70,422)**	**(71,364)**
Profit/loss on sale of other assets	12	**102**	**6,384**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	13	**17,202**	**17,804**
Operating profit		**790,714**	**1,167,682**
Share in net profits of entities valued at equity method		**61**	**28**
Profit before tax		**790,775**	**1,167,710**
Income tax expense	14	**(164,356)**	**(220,398)**
Net profit		**626,419**	**947,312**
Including:			
Net profit attributable to the Bank's shareholders		626,419	947,312
Weighted average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	4.79	7.25
Diluted net earnings per share (PLN)	15	4.79	7.25

Explanatory notes on pages 37-114 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

PLN'000 For the period	Note	2015	2014
Net profit		**626,419**	**947,312**
Other comprehensive income that might be subsequrently reclassified to profit or loss:			
Net valuation of financial assets available-for-sale	16	(216,486)	95,836
Foreign exchange differences		(6)	844
Other comprehensive income that might not be subsequrently reclassified to profit or loss:			
Net actuarial profits (losses) on specific services program valuation	16	886	(5,898)
Other comprehensive income after tax		**(215,606)**	**90,782**
Total comprehensive income for the period		**410,813**	**1,038,094**
Including:			
Comprehensive income attributable to the Bank's shareholders		**410,813**	**1,038,094**

Explanatory notes on pages 37-114 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

PLN'000	As at Note	31.12.2015	31.12.2014
ASSETS			
Cash and balances with Central Bank	17	2,170,237	1,522,949
Amounts due from banks	18	757,103	2,065,685
Financial assets held-for-trading	19	6,987,284	12,721,573
Debt securities available-for-sale	20	1,795	-
Hedging derivatives	21	18,351,259	14,435,099
Equity investments valued at equity method	22	7,768	7,765
Equity investments available-for-sale	23	67,744	8,211
Amounts due from customers	24	18,975,471	16,770,482
Tangible fixed assets	25	354,080	366,857
Intangible assets	26	1,371,879	1,387,745
Current income tax receivables		20,673	13,255
Deferred income tax asset	28	161,586	157,319
Other assets	29	277,985	384,612
Non-current assets held-for-sale		1,928	2,113
Total assets		**49,506,792**	**49,843,665**
LIABILITIES			
Amounts due to banks	30	6,963,561	5,122,576
Financial liabilities held-for-trading	19	3,247,523	6,770,922
Hedging derivatives	20	112,383	-
Amounts due to customers	31	31,586,303	29,632,598
Provisions	32	23,494	26,409
Current income tax liabilities		-	186
Other liabilities	33	722,872	880,214
Total liabilities		**42,656,136**	**42,432,905**
EQUITY			
Share capital	35	522,638	522,638
Supplementary capital	35	3,001,525	3,000,298
Revaluation reserve	35	(163,613)	52,873
Other reserves	35	2,869,509	2,893,523
Retained earnings		620,597	941,428
Total equity		**6,850,656**	**7,410,760**
Total liabilities and equity		**49,506,792**	**49,843,665**

Explanatory notes on pages 37-114 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 interest	Total equity
As at 1 January 2015	**522,638**	**3,000,298**	**52,873**	**2,893,523**	**941,428**	**-**	**7,410,760**
Total comprehensive income including:	-	-	(216,486)	880	626,419	-	410,813
net profit	-	-	-	-	626,419	-	626,419
exchange rate differences from foreign units' conversion	-	-	-	(6)	-	-	(6)
valuation of financial assets available-for-sale (net)	-	-	(216,486)	-	-	-	(216,486)
net actuarial profits on specific services program valuation	-	-	-	886	-	-	886
Dividends paid	-	-	-		(970,917)	-	(970,917)
Transfer to capital	-	1,227	-	(24,894)	23,667	-	-
As at 31 December 2015	**522,638**	**3,001,525**	**(163,613)**	**2,869,509**	**620,597**	**-**	**6,850,656**

Note: 16, 35

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	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: 16, 35

Explanatory notes on pages 37-114 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

PLN'000 For the period	2015	2014
A. Cash flows from operating activities		
I. Net profit	**626,419**	**947,312**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**228,647**	**(342,970)**
Current and deferred income tax recognized in income statement	164,356	220,398
Share in net profits/losses of entities valued at equity method	(61)	(28)
Depreciation expense	70,422	71,364
Net impairment due to financial assets value loss	(14,416)	(17,893)
Net provisions (recoveries)	13,911	(3,792)
Net interest income	(976,600)	(1,163,943)
Profit/loss on sale of investments	(77)	(6,497)
Net unrealized exchange differences	(14,533)	(18,657)
Other adjustments	7,110	4,975
Cash flows from operating income before changes in operating assets and liabilities	**(749,888)**	**(914,073)**
Change in operating assets (excl. cash and cash equivalents)	**614,873**	**(3,796,967)**
Change in amounts due from banks	1,279,141	1,342,186
Change in amounts due from customers	(2,187,882)	(1,526,081)
Change in debt securities available-for-sale	(4,285,478)	3,346,747
Change in equity investments available-for-sale	3,502	7,264
Change in financial assets held-for-trading	5,696,941	(6,950,635)
Change in assets available-for-sale	(1,795)	(1,174)
Change in other assets	110,444	(15,274)
Change in operating liabilities (excl. cash and cash equivalents)	**363,662**	**4,368,070**
Change in amounts due to banks	1,992,079	(1,235,446)
Change in amounts due to customers	1,956,310	3,073,878
Change in liabilities held-for-trading	(3,523,399)	2,574,026
Change in amounts due to hedging derivatives	112,383	(24,710)
Change in other liabilities	(173,711)	(19,678)
Interest received	**1,308,427**	**1,433,535**
Interest paid	**(255,530)**	**(328,650)**
Income tax paid	**(128,577)**	**(136,088)**
III. Net cash flows from operating activities	**1,779,386**	**1,573,139**
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(34,502)	(47,144)
Disposal of tangible fixed assets	6,259	22,632
Purchase of intangible assets	(20,873)	(6,995)
Disposal of fixed assets available-for-sale	250	16,452
Other investing inflows	58	-
Net cash flows from investing activities	**(48,808)**	**(15,055)**
C. Cash flows from financing activities		
Dividends paid	(970,917)	(934,598)
Inflows due to long-term loans from financial sector entities	56,461	197,577
Repayment of long-term loans from financial sector entities	(202,379)	(221,230)
Net cash flows from financing activities	**(1,116,835)**	**(958,251)**
D. Exchange rates differences resulting from cash and cash equivalents conversion	**7,694**	**12,920**
E. Net increase in cash and cash equivalents	**621,437**	**612,753**
F. Cash at the beginning of the period	**1,732,915**	**1,120,162**
G. Cash at the end of the period (see Note 44)	**2,354,352**	**1,732,915**

Explanatory notes on pages 37-114 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 basis 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 is 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	
		31.12.2015	31.12.2014
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, 31.12.2015

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	97.47	184,631	45,504	139,127	14,528	3,928
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100.00	44,397	25,764	18,633	1,792	(1,578)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	348,412	234,009	114,403	75,938	19,453
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100.00	Entity under liquidation				

** direct share*

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100.00	7,768	10,930	37	10,893	221	57

** direct share*

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o. PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	3,125	184,631	45,504	139,127	14,528	3,928

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 29 February 2016, which is the entity's balance sheet date.

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
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	264,580	124,815	139,765	23,662	4,566
HANDLOWY INVESTMENTS S.A. /	Luxembourg	Investment activity	Subsidiary	100.00	43,644	238	43,406	640	271
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	424,698	318,187	106,511	76,093	15,340
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100.00	Entity under liquidation				

** direct share*

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY – INWESTYCJE Sp. z o.o. /	Warsaw	Investment activity	Subsidiary	100.00	7,765	10,930	37	10,893	537	57

** direct share*

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o. PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	3,125	264,580	124,815	139,765	23,662	4,566

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 2015, 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 2015, the financial data amounted to 0.02% of the Group's assets (as at 31 December 2014: 0.02%) and 0.01% of the Group's net profit (as at 31 December 2014: 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") as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with further amendments) and respective operating regulations.

The annual consolidated financial statements have been approved by the Management Board of the Bank for publication on 7 March 2016. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

The annual standalone financial statements were approved by the Management Board of the Bank for publication on 7 March 2016. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

Basis of preparation

These annual consolidated financial statements of the Group have been prepared for the period from 1 January 2015 to 31 December 2015 and for the consolidated statements of financial situation as at 31 December 2015. The comparable financial data are presented 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 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 depreciation/ amortization and 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 approval that can an have influence on financial statements of the Group:

- IFRS 9 "Financial Instruments" awaiting EU 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 a portfolio of financial assets or financial liabilities. The standard will be in force from the 1st January 2018. The Group is in the process of work related to the analysis of the requirements of the new standard, estimation of the potential impact on its financial statement and implementation of IFRS 9 into accounting and operational processes in the Group. At present the Group claims that the new standard will have an impact on the presentation and measurment of certain financial instruments in the financial statements as well as the calculation of impairment of financial assets.

- IFRS 15 “Revenue from Contracts with Customers” awaiting EU endorsement, was published by IASB on 28th May 2014.The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The revenue is recognized when the control over the goods or services is transferred to the customer. The Group is in the process of estimation of the potential impact of the standard on its financial statement.
- IFRS 16 ”Leases” awaiting EU endorsement, was published by IASB on 13th January 2014. This standard replaces requirements introduced by IAS 17 “Leases”. Under the new standard, the Bank will recognize lease contracts in the balance sheet. It will be necessary to recognize a right-of-use asset and a lease liability. The Group is in the process of estimation of the potential impact of the standard on its financial statement.
- Amendments to IAS 1 ”Presentation of Financial Statements” came into force on 1 January 2016, was published by IASB on 18th December 2014. The amendments clarify that information should not be obscured by aggregating or by providing immaterial information. The Group claims that the standard’s amendment will not have a material impact on its financial statements in the period of its first application.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed, including awaiting the European Union’s approval are either not relevant to the Group’s activity or would not have a material impact on the financial statements 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 Group. The Group controls an entity when the Group has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

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

PLN		31 December 2015	31 December 2014
1	USD	3.9011	3.5072
1	CHF	3.9394	3.5447
1	EUR	4.2615	4.2623

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 and internal deposits. The purchased receivables contain short-term receivables from domestic and foreign turnover documented by invoices and bills of exchange.

(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 and commercial commitments.

Cash

Cash is cash in hand and receivables on current balances in banks, described in detail in note 44 "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.

Derivative financial instruments are recognized at fair value from the trade date and are derecognized from the balance on the settlement date.

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 the 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 or financial assets held-for-trading.

Derivatives

Fair value of derivatives financial instruments 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 criteria are met from IAS 39 – "Financial Instruments: Recognition and Measurement".

A fair value hedge is a hedge against the impact of changes in an 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 the fair value of financial instruments designated as hedging positions are recognized – in part resulting from hedged risk - in the income statement. In case of other parts, the changes in carrying amount are booked in accordance with the general rules for a given class of financial instruments.

Offsetting financial instruments

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

Cash pooling

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

Repurchase and resale agreements, repo / reverse repo transactions

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively, as well as repo and reverse repo transactions in securities. Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the statement of financial position as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method. In the case of sale of the securities previously purchased in the reverse repo transaction, the Group recognizes liabilities due to the 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 payment 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 an active market). In the 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 the 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 the discount rate before taxation, which represent present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for 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 the 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 independently of objective evidence of impairment. The revaluation write-off for impairment for goodwill cannot be reversed.

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 2015.

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 the year 2015 the SOP programme was completed. All the options which had not been completed until the 29th of October, 2015 expired.

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 the "consolidated statement on financial position" and "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 the provision resulting from a 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 47 “Employee benefits”.

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 47. 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 a 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 a loan against the sum of these values is established allocation of total income. Income on selling insurance product is divided into the following components:

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

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 an 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 a cash loan are amortized over the life of the product as an 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 the 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 – the Corporate Bank and Consumer Bank. Detailed information about the segments of the Group is presented in Note 3.

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

Non-current assets held-for-sale

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

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

Accounting estimates and judgments

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

Fair value of derivatives

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

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

- FX forwards – discounted cash flows model;
- options – option market-based valuation model;

- interest rate transactions – discounted cash flows model;
- futures – current quotations.

The Group uses a 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 the credit rating (external or internal, when an 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.

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 an impairmaint loss 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 loss. 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 impairment loss group method. Estimates may include observable data indicating an adverse change in macroeconomic conditions or standing of borrowers 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 the 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 amount of provisions corresponds with the currents 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 of the parent entity 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 – Institutional Bank and Consumer Bank. The valuation of a segment's assets and liabilities as well as calculation of financial results comply with the Group's accounting policies applied in the preparation of the financial statements, including intergroup transactions between segments.

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

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

Institutional Bank

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

Consumer Bank

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

Income statement of the Group by business segment

For the period	2015			2014		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	420,852	555,748	976,600	516,149	647,794	1,163,943
Internal net interest income, including:	(53,265)	53,265	-	(53,302)	53,302	-
internal income	-	53,265	53,265	-	53,302	53,302
internal costs	(53,265)	-	(53,265)	(53,302)	-	(53,302)
Net fee and commission income	279,948	351,402	631,350	279,785	339,146	618,931
Dividend income	1,667	5,715	7,382	2,215	3,568	5,783
Net income on trading financial instruments and revaluation	265,928	27,190	293,118	350,697	31,463	382,160
Net gain on debt investment securities	145,246	-	145,246	229,922	-	229,922
Net gain on capital investment instruments	2,232	-	2,232	6,429	-	6,429
Net gain on hedge accounting	7,949	-	7,949	(379)	-	(379)
Net other operating income	17,570	(29,740)	(12,170)	31,646	(21,061)	10,585
General administrative expenses	(544,279)	(663,596)	(1,207,875)	(515,892)	(686,624)	(1,202,516)
Depreciation expense	(23,298)	(47,124)	(70,422)	(23,937)	(47,427)	(71,364)
Profit/loss on sale of other assets	47	55	102	892	5,492	6,384
Net impairment allowances for	3,489	13,713	17,202	(1,621)	19,425	17,804

For the period	2015			2014		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
financial assets and net provisions for financial liabilities and guarantees granted						
Operating profit	**577,351**	**213,363**	**790,714**	**875,906**	**291,776**	**1,167,682**
Share in net profits of entities valued at equity method	61	-	61	28	-	28
Profit before tax	**577,412**	**213,363**	**790,775**	**875,934**	**291,776**	**1,167,710**
Income tax expenses			(164,356)			(220,398)
Net profit			**626,419**			**947,312**

As at	31.12.2015			31.12.2014		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets, including:	**43,034,095**	**6,472,697**	**49,506,792**	**43,663,564**	**6,180,101**	**49,843,665**
Assets valued at equity method	7,768	-	7,768	7,765	-	7,765
Non-current assets held-for-sale	-	1,928	1,928	-	2,113	2,113
Total liabilities and equity, including:	**38,188,084**	**11,318,708**	**49,506,792**	**40,417,857**	**9,425,808**	**49,843,665**
Liabilities	32,930,579	9,725,557	42,656,136	34,672,382	7,760,523	42,432,905

4. Net interest income

PLN'000	2015	2014
Interest and similar income due to:		
Balances with Central Bank	16,726	25,017
Amounts due from banks	38,185	60,334
Amounts from customers, including:	778,316	946,928
financial sector entities	21,362	20,333
non-financial sector entities	756,954	926,595
Debt securities available-for-sale	297,497	363,255
Debt securities held-for-trading	73,416	93,537
Hedging derivates	28,273	-
	1,232,413	**1,489,071**
Interest expense and similar charges due to:		
Amounts due to banks	(40,967)	(39,223)
Amounts due to financial sector entities	(48,985)	(84,999)
Amounts due to non-financial sector entities	(115,952)	(194,997)
Loans and advances received	(1,648)	(3,267)
Derivatives in hedge accounting	(48,261)	(2,642)
	(255,813)	**(325,128)**
Net interest income	**976,600**	**1,163,943**

Net interest income for 2015 includes interest accrued on impaired loans of PLN 16,921 thousand (for 2014: PLN 27,633 thousand).

5. Net fee and commission income

PLN'000	2015	2014
Fee and commission income		
Insurance and investment products (agency)	119,656	145,495
Payment and credit cards	188,001	205,391
Payment services	110,993	114,167
Custody services	123,637	111,433
Charges from cash loans	2,606	3,228
Brokerage operations	53,999	64,038
Cash management services on customers' accounts	26,454	27,617
Guarantees granted	16,343	14,991
Financial liabilities granted	5,420	6,226
Other	62,326	33,610
	709,435	**726,196**
Fee and commission expense		
Payment and credit cards	(24,977)	(50,248)
Brokerage operations	(16,679)	(21,680)
Fees paid to the National Depository for Securities (KDPW)	(19,367)	(20,473)
Broker's fees	(4,512)	(4,073)
Other	(12,550)	(10,791)
	(78,085)	**(107,265)**
Fee and commission income	**631,350**	**618,931**

The net fee and commission income for 2015 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 194,649 thousand (for 2014: PLN 211,693 thousand) and commission expenses in the amount of PLN 24,977 thousand (for 2014: PLN 50,248 thousand).

6. Dividend income

PLN'000	2015	2014
Securities available-for-sale	7,018	4,966
Securities held-for-trading	364	817
Total dividend income	**7,382**	**5,783**

7. Net income on trading financial instruments and revaluation

PLN'000	2015	2014
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	(29,914)	112,538
Equity instruments	(8,035)	(1,429)
Derivative instruments, including:	64,559	(20,258)
Interest rate derivatives	53,614	(22,964)
	26,610	**90,851**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	361,841	292,999
Revaluation	(95,333)	(1,690)
	266,508	**291,309**
Net income on trading financial instruments and revaluation	**293,118**	**382,160**

The net income on trading financial instruments and revaluation for 2015 contains movement in (net) adjustment of the valuation of derivatives from adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN (11,170) thousand (in 2014: PLN 10,935 thousand).

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. Hedge accounting income

PLN'000	2015	2014
Fair value hedge accounting		
Net gain on hedged transaction valuation	94,294	25,987
Net gain on hedging transaction valuation	(86,345)	(26,366)
Hedge accounting income	**7,949**	**(379)**

Detailed information on hedge accounting applied in the Group is presented in the further part of these Financial Statements in note 38.

9. Net other operating income

PLN'000	2015	2014
Other operating income		
Services for related parties	8,968	8,894
Rental of office space	9,539	9,362
Reversal of provision on litigation	-	5,679
Other	21,632	28,331
	40,139	**52,266**
Other operating expenses		
Amicable procedure and debt collection expenses	(19,509)	(20,480)
Fixed assets held-for-sale valuation	-	(1,152)
Fixed assets held-for-sale maintenance cost	(173)	(592)
Creation of provisions for litigations (net)	(15,568)	-
Other	(17,059)	(19,457)
	(52,309)	**(41,681)**
Net other operating income	**(12,170)**	**10,585**

10. General administrative expenses

PLN'000	2015	2014
Staff expenses		
Remuneration costs, including:	(404,501)	(403,994)
Provisions for retirement allowances	(25,130)	(23,842)
Bonuses and rewards, including:	(94,351)	(109,084)
Payments related to own equity instruments	(10,254)	(17,124)
Rewards for long time employment	(45)	(847)
Social insurance costs	(66,911)	(66,916)
	(565,763)	**(579,994)**

PLN'000	2015	2014
Administrative expenses		
Telecommunication fees and hardware purchases	(200,464)	(174,244)
Costs of external services, including advisory, audit, consulting services	(66,253)	(71,405)
Building maintenance and rent costs	(82,157)	(100,037)
Advertising and marketing costs	(10,666)	(25,163)
Cash management service, KIR service and other transactional costs	(42,580)	(50,831)
Costs of external services related to the distribution of banking products	(15,717)	(63,933)
Postal services, office supplies and printmaking costs	(10,262)	(13,991)
Training and education costs	(2,742)	(4,003)
Banking supervisory expenses	(3,744)	(3,201)
Bank Guarantee Funds costs	(130,934)	(37,482)
Other expenses	(76,593)	(78,232)
	(642,112)	**(622,522)**
Total general administrative expenses	**(1,207,875)**	**(1,202,516)**

Staff expenses include the following employee benefits for current and former members of the Management Board.

PLN'000	2015	2014
Short-term employee benefits	12,536	13,156
Long-term employee benefits	4,397	2,965
Capital assets	3,705	7,512
	20,638	**23,633**

11. Depreciation expense

PLN'000	2015	2014
Depreciation of property and equipment	(35,853)	(35,837)
Amortization of intangible assets	(34,569)	(35,527)
Depreciation expense, total	**(70,422)**	**(71,364)**

12. Sale of other assets

PLN'000	2015	2014
Profits on:		
Sale of tangible fixed assets	60	745
Sale of fixed assets held-for-sale	43	5,803
	103	**6,548**
Losses on:		
Sale of assets available for sale	-	(164)
Sale of tangible fixed assets	(1)	-
	(1)	**(164)**
Sale of other assets	**102**	**6,384**

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

PLN'000	2015			
	Institutional customers	Retail customers	Banks	Total
Impairment allowances for financial assets:				
Amounts due from banks and customers	(63,544)	(110,977)	(3,900)	(178,421)
Amounts due from matured transactions in derivative instruments	(766)	-	-	(766)
	(64,310)	**(110,977)**	**(3,900)**	**(179,187)**
Reversals of impairment allowances for financial assets:				
Amounts due from banks and customers	63,486	91,436	4,972	159,894
Amounts due from matured transactions in derivative instruments	1,871	-	-	1,871
Recovery on sale of debt	(224)	27,929	-	27,705
Other	(2,745)	6,877	-	4,132
	62,388	**126,242**	**4,972**	**193,602**
Net impairment due to financial assets value losses	**(1,922)**	**15,265**	**1,072**	**14,415**
Establish of provisions for granted financial and guarantee commitments	(25,950)	(6)	-	(25,956)
Release of provisions for granted financial and guarantee commitments	28,062	681	-	28,743
Net impairment due to provisions for granted financial and guarantee commitments	**2,112**	**675**	**-**	**2,787**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**190**	**15,940**	**1,072**	**17,202**

PLN'000	2014			
	Institutional customers	Retail customers	Banks	Total
Impairment write-offs of financial assets:				
Amounts due from banks and 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 write-offs of financial assets:				
Amounts due from banks and 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**
Establishment 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**

14. Income tax expense

Recognized in the income statement

PLN'000	2015	2014
Current tax		
Current year	(117,857)	(204,581)
Adjustments for prior years	(194)	8,922
	(118,051)	**(195,659)**
Deferred tax		
Origination and reversal of temporary differences	(46,305)	(24,716)
Written-off assets due to deferred tax	-	(23)
	(46,305)	**(24,739)**
Total income tax expense in income statement	**(164,356)**	**(220,398)**

Reconciliation of effective tax rate

PLN'000	2015	2014
Profit before tax	790,775	1,167,710
Income tax at the domestic corporate tax rate of 19%	(150,247)	(221,865)
Impairment write-offs not constituting deductible expenses	(11,592)	(10,227)
Deductible income not recognized in the income statement	(642)	(397)
Deductible expenses not recognized in the income statement	(3,083)	(337)
Non-taxable income	5,414	2,306
Technological relief	-	9,637
Other permanent differences, incluiding other non-deductible expenses	(4,206)	485
Total tax expenses	**(164,356)**	**(220,398)**
Effective tax rate	**20.78%**	**18.87%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2015 is related to debt and equity instruments available-for-sale and valuation of defined benefit plan and amounted to PLN 39,554 thousand (31 December 2014: PLN (11,019) thousand).

15. Earnings per share

As at 31 December 2015, earnings per share amounted to PLN 4.79 (31 December 2014: PLN 7.25).

The calculation of earnings per share as at 31 December 2015 was based on profit attributable to shareholders of PLN 626,419 thousand (31 December 2014: PLN 947,312 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2015 of 130,659,600 (31 December 2014: 130,659,600).

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

16. 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 and valuation of specific services program recognized in the other reserves.

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2015	**57,994**	**(11,019)**	**46,975**
AFS valuation change	(122,019)	23,182	(98,837)
Valuation of sold AFS moved to income statement	(145,246)	27,597	(117,649)
Net actuarial profits on defined benefit plan	1,093	(207)	886
As at 31 December 2015	**(208,178)**	**39,553**	**(168,625)**

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 defined benefit plan	(7,281)	1,383	(5,898)
As at 31 December 2014	**57,994**	**(11,019)**	**46,975**

17. Cash and balances with the Central Bank

PLN'000	31.12.2015	31.12.2014
Cash in hand	477,105	495,408
Current balances with Central Bank	1,693,132	1,027,541
Cash and balances with the Central Bank, total	**2,170,237**	**1,522,949**

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 2015 to PLN 1,277,754 thousand (31 December 2014: PLN 1,105,461 thousand).

18. Amounts due from banks

PLN'000	31.12.2015	31.12.2014
Current accounts	184,445	210,424
Deposits	28,111	406,948
Loans and advances	4,461	359,072
Unlisted debt securities	28,455	28,456
Receivables due to purchased securities with repurchase agreement	215,166	681,694
Deposits pledged as collateral of derivative instruments and stock market transactions	286,641	381,971
Other receivables	11,574	-
Total gross amount	**758,853**	**2,068,565**
Impairment write-offs	(1,750)	(2,880)
Total net amount due from banks	**757,103**	**2,065,685**

The movement in amounts due from banks is as follows:

PLN'000	31.12.2015	31.12.2014
As at 1 January	**(2,880)**	**(1,173)**
Increases (due to):		
Write-offs creation	(3,900)	(4,503)
Other	-	(7)
Decreases (due to):		
Write-offs release	4,972	2,803
Other	58	-
As at 31 December	**(1,750)**	**(2,880)**

As at 31 December 2015 and 31 December 2014, recognized impairment on amounts due from banks concerned incurred but not reported (IBNR) write-offs.

19. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN'000	31.12.2015	31.12.2014
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	379,866	137,770
Other financial entities	33,054	-
Non-financial entities	-	14,799
Central governments	4,279,640	6,944,306
	4,692,560	**7,096,875**
Including:		
Listed on active market	4,297,762	6,284,719
Unlisted on active market	394,798	812,156
Equity instruments held-for-trading	**27,592**	**238**
Including:		
Listed on active market	27,592	238
Derivative financial instruments	**2,267,132**	**5,624,460**
Financial assets held-for-trading, total	**6,987,284**	**12,721,573**

*As at 31 December 2015, some of the securities (bonds) issued by banks in the amount of PLN 406 thousand are covered by Government guarantees (31 December 2014: PLN 2 thousand).

Financial liabilities held-for-trading

PLN'000	31.12.2015	31.12.2014
Short positions in financial assets	988,102	1,005,545
Derivative financial instruments	2,259,421	5,765,377
Financial liabilities held-for-trading	**3,247,523**	**6,770,922**

As at 31 December 2015 and 31 December 2014, the Group did not hold any financial assets and liabilities designated at fair value through profit or loss at initial recognition.

As at 31 December 2015, financial assets from derivatives transactions were not adjusted due to counterparty credit risk. As at 31 December 2014, impairment regarding the valuation adjustment of financial assets mentioned above amounted to PLN 4,526 thousand).

Derivative financial instruments as at 31 December 2015

PLN'000	Nominal amount with a remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**29,606,742**	**25,704,772**	**65,253,560**	**17,039,073**	**137,604,147**	**1,833,332**	**1,910,807**
FRA	14,448,907	5,482,363	2,360,000	-	22,291,270	8,191	6,617
Interest rate swaps (IRS)	11,139,647	15,847,092	52,692,575	12,731,037	92,410,351	1,533,367	1,636,670
Currency-interest rate swaps (CIRS)	3,103,899	4,375,317	9,855,708	4,308,036	21,642,960	289,872	265,389
Interest rate options	-	-	345,277	-	345,277	1,748	1,748
Futures*	914,289	-	-	-	914,289	154	383
Currency instruments	**22,998,714**	**7,398,703**	**2,842,795**	**49,994**	**33,290,206**	**337,491**	**249,663**
FX forward	1,798,010	1,300,349	923,125	49,994	4,071,478	53,699	34,668
FX swap	19,188,781	2,359,480	-	-	21,548,261	231,367	162,205
Foreign exchange options	2,011,923	3,738,874	1,919,670	-	7,670,467	52,425	52,790
Securities transactions	**1,807,542**	**11,051**	**-**	**-**	**1,818,593**	**1,575**	**4,252**
Futures*	17,262	11,051	-	-	28,313	-	-
Securities purchased / sold pending delivery	1,790,280	-	-	-	1,790,280	1,575	4,252
Commodity transactions	**175,897**	**446,005**	**260,071**	**-**	**881,973**	**94,734**	**94,699**
Swaps	122,107	430,807	260,071	-	812,985	94,720	94,685
Options	53,790	15,198	-	-	68,988	14	14
Total derivative instruments	**54,588,895**	**33 560 531**	**68,356,426**	**17,089,067**	**173,594,919**	**2,267,132**	**2,259,421**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2014

PLN'000	Nominal amount with a remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**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**
Swap	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*

20. Hedging derivates

Assets - Positive valuation

PLN'000	31.12.2015	31.12.2014
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	1,795	-

Liabilities – Negative valuation

PLN'000	31.12.2015	31.12.2014
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	112,383	-

Hedging derivates as at 31 December 2015

PLN'000	Nominal amount with a remaining life of				Total
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	
Interest rate instruments					
Interest rate swaps (IRS)	-	-	3,058,015	1,373,000	4,431,015

21. Debt securities available-for-sale

PLN'000	31.12.2015	31.12.2014
Bonds and notes issued by:		
Central bank	-	4,499,750
Other banks*	1,509,007	1,182,039
Central governments, including:	16,842,252	8,753,310
bonds subject to fair value hedge accounting	4,657,996	-
Debt securities available-for-sale, total	**18,351,259**	**14,435,099**
Including:		
Listed on active market instruments	17,730,251	7,606,151
Unlisted on active market instruments	621,008	6,828,948

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

PLN'000	2015	2014
As at 1 January	**14,435,099**	**17,616,041**
Increases (due to):		
Purchases	172,338,701	319,403,242
Revaluation	-	102,367
Exchange differences	213,522	177,579
Depreciation of discount, premium and interest	241,808	58,522
Decreases (due to):		
Sale	(168,634,720)	(322,922,652)
Revaluation	(243,151)	-
As at 31 December	**18,351,259**	**14,435,099**

*As at 31 December 2015, some of the securities (bonds) issued by other banks in the amount of PLN 556,274 thousand are covered by Government guarantees (31 December 2014: PLN 266,542 thousand).

22. Equity investments valued using equity method

PLN'000	31.12.2015	31.12.2014
Shares in subsidiaries	**7,768**	**7,765**
Including:		
Unlisted instruments	7,768	7,765

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

PLN'000	2015	2014
As at 1 January	**7,765**	**7,814**
Increases (due to):		
Revaluation	3	-
Decreases (due to):		
Revaluation	-	(49)
As at 31 December	**7,768**	**7,765**

23. Equity investments available-for-sale

PLN'000	31.12.2015	31.12.2014
Stocks and shares in other entities	77,229	19,651
Impairment	(9,485)	(11,440)
Other equity investments available-for-sale, total	**67,744**	**8,211**
Including:		
Listed on active market instruments	1,006	1,280
Unlisted on active market instruments	66,738	6,931

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

PLN'000	2015	2014
As at 1 January	**8,211**	**15,280**
Increases (due to):		
Revaluation	63,050	116
Decreases (due to):		
Sale	(3,517)	(7,185)
As at 31 December	**67,744**	**8,211**

In the 2015 the following events took place:

- there was made a positive valuation up to the fair value of shares in the Visa Europe Ltd. company as on the amount of PLN 63,323 thousand as of the 31st December 2015. That was an outcome of the acquisition transaction of Visa Europe Ltd. shares by Visa Inc. and conditions of Visa Europe Ltd shares sale transaction received by the Bank. The difference between the previous value of the share of PLN 45 and determined fair value was recognised into the other comprehensive income, additional information is contained in Note 39;
- there was a sell of shares in Polski Koncern Mięsny DUDA S.A representing 2.81% of the share in the capital and 2.81% of votes at the General Meeting.The carrying/ book value of sold shares amounted to PLN 3,517 thousand.

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. Book value of sold shares amounted to PLN 5,649 thousand.

24. Amounts due from customers

PLN'000	31.12.2015	31.12.2014
Amounts due from financial sector entities		
Loans and advances	307,402	340,841
Debt securities unlisted	199,724	-
Receivables subject to securities sale and repurchase agreements	1,356,247	599,899
Guarantee funds and deposits pledged as collateral	186,007	98,011
Other receivables	1,605	1,695
Total gross amount	**2,050,985**	**1,040,446**
Impairment write-offs	(17,270)	(19,082)
Total net amount	**2,033,715**	**1,021,364**
Amounts due from non-financial sector entities		
Loans and advances	15,254,953	14,142,915
Unlisted debt securities	1,075,891	1,118,225
Purchased receivables	1,102,720	1,006,797
Effected guarantees	1,577	1,824
Other receivables*	74,751	259,171
Total gross amount	**17,509,892**	**16,528,932**
Impairment write-offs	(568,136)	(779,814)
Total net amount	**16,941,756**	**15,749,118**
Total net amounts due from customers	**18,975,471**	**16,770,482**

*"Other receivables" includes leasing receivables in the amount of PLN 66,895 thousand (31 December 2014: PLN 231,591 thousand).

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

PLN'000	31.12.2015	31.12.2014
Portfolio impairment loss	(224,106)	(387,688)
Individual impairment loss	(296,332)	(339,901)
Incurred but not reported losses (IBNR)	(64,968)	(71,307)
Impairment loss, total	**(585,406)**	**(798,896)**

The movement in impairment loss on amounts due from customers is as follows:

	2015			2014		
PLN'000	Institutional customers	Retail customers	Total	Institutional customers	Retail customers	Total
As at 1 January	**(403,578)**	**(395,318)**	**(798,896)**	**(448,225)**	**(535,808)**	**(984,033)**
Increases (due to):						
Creation of write-offs	(63,544)	(110,977)	(174,521)	(98,339)	(115,753)	(214,092)
Other	(3,253)	433	(2,820)	(2,201)	-	(2,201)
Decreases (due to):						
Restating receivables	41,530	58,338	99,868	43,993	136,264	180,257
Net write-offs on receivables on taken instruments transactions	1,105	-	1,105	388	-	388
Write-offs release	63,486	91,436	154,922	98,201	118,613	216,814
Sale of receivables	42,764	92,172	134,936	-	-	-
Other	-	-	-	2,605	1,366	3,971
As at 31 December	**(321,490)**	**(263,916)**	**(585,406)**	**(403,578)**	**(395,318)**	**(798,896)**

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	31.12.2015	31.12.2014
Gross finance lease receivables	68,127	238,625
Unrealized financial income	(1,232)	(7,034)
Net finance lease receivables	**66,895**	**231,591**

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

PLN'000	31.12.2015	31.12.2014
Less than 1 year	57,957	164,789
Between 1 and 5 years	10,170	73,836
	68,127	**238,625**

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

PLN'000	31.12.2015	31.12.2014
Less than 1 year	56,933	159,888
Between 1 and 5 years	9,962	71,703
	66,895	**231,591**

As at 31 December 2015, impairment of finance lease receivables amounted to PLN 8,010 thousand (as at 31 December 2014: PLN 62,258 thousand).

Finance lease income is presented in interest income.

25. Tangible fixed assets

Movements of tangible fixed assets in 2015

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2015	**601,749**	**101**	**16,896**	**307,290**	**10,149**	**936,185**
Increases:						
Purchases	806	-	188	6,206	27,302	34,502
Other increases	-	-	-	854	-	854
Decreases:						
Disposals	-	(5)	(14,093)	(194)	-	(14,292)
Liquidation	(1,381)	-	-	(32,702)	-	(34,083)
Other decreases	-	-	(9)	(73)	-	(82)
Transfers	12,497	-	-	10,653	(27,994)	(4,844)
As at 31 December 2015	**613,671**	**96**	**2,982**	**292,034**	**9,457**	**918,240**
Depreciation						
As at 1 January 2015	**289,412**	**99**	**7,393**	**272,424**	**-**	**569,328**
Increases:						
Amortization change for the period	17,452	2	1,750	16,649	-	35,853
Other increases	-	-	40	827	-	867

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Decreases:						
Disposals	-	(5)	(7,706)	(326)	(7)	(8,044)
Liquidation	(1,381)	-	-	(32,390)	-	(33,771)
Other decreases	-	-	(10)	(63)	-	(73)
As at 31 December 2015	**305,483**	**96**	**1,467**	**257,121**	**(7)**	**564,160**
Carrying amount						
As at 1 January 2015	312,337	2	9,503	34,866	10,149	366,857
As at 31 December 2015	**308,188**	**-**	**1,515**	**34,913**	**9,464**	**354,080**

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						
As at 1 January 2014	**316,128**	**156**	**29,139**	**289,222**	**-**	**634,645**
Increases:						
Amortization charge 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)
Classified to fixed assets available for sale	(31,286)	-	-	(31,164)	-	(62,450)
Liquidation	(893)	-	-	(271)	-	(1,164)
Other decreases	-	-	-	(11)	-	(11)
As at 31 December 2014	**289,412**	**99**	**7,393**	**272,424**	**-**	**569,328**
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**

26. Intangible assets

Movements of intangible assets in 2015

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2015	**1,245,976**	**2,444**	**401,614**	**18,519**	**5,789**	**1,674,342**
Increases:						
Purchases	-	116	865	-	19,892	20,873

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Decreases:						
Liquidation	-	-	(10,251)	-	-	(10,251)
Transfers	-	-	13,775	-	(15,350)	(1,575)
As at 31 December 2015	**1,245,976**	**2,560**	**406,003**	**18,519**	**10,331**	**1,683,389**
Depreciation						
As at 1 January 2015	**-**	**2,289**	**265,803**	**18,505**	**-**	**286,597**
Increases:						
Amortization charge for the period	-	31	34,531	7	-	34,569
Other increases	-	-	405	-	-	405
Decreases:						
Liquidation	-	-	(10,061)	-	-	(10,061)
As at 31 December 2015	**-**	**2,320**	**290,678**	**18,512**	**-**	**311,510**
Carrying amount						
As at 1 January 2015	1,245,976	155	135,811	14	5,789	1,387,745
As at 31 December 2015	**1,245,976**	**240**	**115,325**	**7**	**10,331**	**1,371,879**

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**
Depreciation						
As at 1 January 2014	**-**	**2,121**	**236,332**	**18,827**	**-**	**257,280**
Increases:						
Amortization 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**

As at 31 December 2015, 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.

27. Impairment test for goodwill

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash generating-units: Institutional Bank and Consumer Bank. Assignment was made on the basis of discounted cash flows models on the basis of the strategy before the merge. After fusion, reallocation of goodwill was conducted on the basis of the assets' relative values transferred to another center comparing to the 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	**31.12.2015**
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 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 2015, the discount rate amounted to 9.10% (8.45% at the end of 2014).

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 2015.

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.

28. Deferred income tax asset and liabilities

PLN'000	**31.12.2015**	**31.12.2014**
Deferred income tax asset	568,132	1,155,827
Deferred income tax liability	(406,546)	(998,508)
Deferred income tax net asset	**161,586**	**157,319**

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	**31.12.2015**	**31.12.2014**
Interest accrued and other expense	14,652	23,217
Revaluation impairment write-offs	25,767	51,768
Unrealized premium from securities	8,273	10,531
Derivative financial instruments negative valuation	374,132	956,637
Negative valuation of securities held-for-trading	2,892	3,866
Income collected in advance	19,023	8,469
Valuation of shares	2,545	2,916
Commissions	8,526	7,511
Debt and equity securities available-for-sale	38,378	-
Staff expenses and other cost due to pay	56,744	65,189
Differences between balance-sheet and tax value of leases	(4,768)	790

PLN'000	31.12.2015	31.12.2014
Other	21,968	24,933
Deferred tax asset	**568,132**	**1,155,827**

Deferred tax liability is attributable to the following:

PLN'000	31.12.2015	31.12.2014
Interest accrued (income)	21,587	28,936
Derivative financial instruments positive valuation	318,957	929,863
Unrealized securities discount	1,105	789
Income to receive	4,131	4,864
Positive valuation of securities held-for-trading	1,950	1,533
Debt and equity securities available-for-sale	18,602	14,430
Investment relief	13,236	14,351
Valuations of shares	1,875	1,863
Other	25,103	1,879
Deferred tax liability	**406,546**	**998,508**
Net deferred income tax asset	**161,586**	**157,319**

Movement in temporary differences during the year 2015

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2015	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2015
Interest accrued and other expense	23,217	(8,565)		14,652
Revaluation impairment write-offs	51,768	(26,001)	-	25,767
Unrealized premium from securities	10,531	(2,258)	-	8,273
Derivative financial instruments negative valuation	956,637	(582,505)	-	374,132
Negative valuation of securities held-for-trading	3,866	(974)	-	2,892
Income collected in advance	8,469	10,554	-	19,023
Valuation of shares	2,916	(371)	-	2,545
Commissions	7,511	1,015	-	8,526
Debt and equity securities available-for-sale	-	-	38,378	38,378
Staff expenses and other costs due to pay	65,189	(8,238)	(207)	56,744
Differences between balance-sheet and tax value of leases	790	(5,558)	-	(4,768)
Other	24,933	(2,965)	-	21,968
	1,155,827	**(625,866)**	**38,171**	**568,132**

The movement in temporary differences relating to deferred tax provision:

PLN'000	As at 1 January 2015	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2015
Interest accrued (income)	28,936	(7,349)		21,587
Derivative financial instruments positive valuation	929,863	(610,906)	-	318,957
Unrealized securities discount	789	316	-	1,105
Income to receive	4,864	(733)	-	4,131
Positive valuation of securities held-for-trading	1,533	417	-	1,950
Debt and equity securities available-for-sale	14,430	16,574	(12,402)	18,602
Investment relief	14,351	(1,115)	-	13,236
Valuations of shares	1,863	12	-	1,875

PLN'000	As at 1 January 2015	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2015
Other	1,879	23,224	-	25,103
	998,508	**(579,560)**	**(12,402)**	**406,546**
Change in net deferred income tax assets	**157,319**	**(46,305)**	**50,572**	**161,586**

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	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 and equity securities available-for-sale	10,078	-	(10,078)	-
Staff expenses and other costs 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 liability:

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 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**

29. Other assets

PLN'000	31.12.2015	31.12.2014
Interbank settlements	4,357	1,128
Settlements related to brokerage activity	114,456	215,786
Income to receive	66,509	47,311
Staff loans out of the Social Fund	17,722	18,989

PLN'000	31.12.2015	31.12.2014
Sundry debtors	67,192	91,773
Prepayments	7,046	9,625
Other	703	-
Other assets, total	**277,985**	**384,612**
Including financial assets*	204,430	327,676

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

30. Amounts due to banks

PLN'000	31.12.2015	31.12.2014
Current accounts	681,202	663,831
Term deposits	4,460,693	2,370,212
Loans and advances received	198,203	351,533
Liabilities due to sold securities under repurchase agreements	1,623,456	1,726,049
Other liabilities	7	10,951
Total amounts due to banks	**6,963,561**	**5,122,576**

31. Amounts due to customers

PLN'000	31.12.2015	31.12.2014
Deposits from financial sector entities		
Current accounts	226,438	238,351
Term deposits	3,154,694	2,877,084
	3,381,132	**3,115,435**
Deposits from non-financial sector entities		
Current accounts, including:	20,194,711	19,299,093
institutional customers	10,454,683	8,594,113
individual customers	7,074,422	6,372,762
public sector units	2,665,606	4,332,218
Term deposits, including:	7,699,698	7,085,420
institutional customers	5,972,704	5,668,835
individual customers	1,667,610	1,289,231
public sector units	59,384	127,354
	27,894,409	**26,384,513**
Total deposits	**31,275,541**	**29,499,948**
Other liabilities		
Securities sold under repurchase agreements	188,505	-
Other liabilities, including:	122,257	132,650
liabilities due to deposits	99,207	78,153
Total other liabilities	**310,762**	**132,650**
Total amounts due to customers	**31,586,303**	**29,632,598**

32. Provisions

PLN'000	31.12.2015	31.12.2014
Litigation	10,522	9,634
Granted financial and guarantee liabilities	10,451	13,238
Workforce restructuring	680	158
Restructuring of the branch network	1,841	3,379
Provisions, total	**23,494**	**26,409**

The movement in provisions is as follows:

PLN'000	2015	2014
As at 1 January	**26,409**	**89,284**
Provisions for:		
Litigation	9,634	15,313
Granted financial and guarantee commitments	13,238	13,150
Workforce restructuring	158	53,787
Restructuring of branches chain	3,379	7,034
Increases:		
Charges to provisions in the period:	44,720	42,725
litigation	16,775	4,693
granted financial and guarantee commitments	25,956	31,101
workforce restructuring	680	158
restructuring of the branch network	1,309	6,773
Other increases in provisions, including:	-	1
for litigation	-	1
Decreases:		
Release of provisions in the period	(30,808)	(46,517)
litigation	(1,207)	(10,373)
granted financial and guarantee commitments	(28,743)	(31,013)
employment restructuring	(158)	(4,496)
restructuring of the branch network	(700)	(635)
Provisions used in the period, including:	(16,827)	(59,084)
litigation	(14,680)	-
workforce restructuring	-	(49,291)
restructuring of the branch network	(2,147)	(9,793)
As at 31 December	**23,494**	**26,409**

33. Other liabilities

PLN'000	31.12.2015	31.12.2014
Staff benefits	48,212	51,177
Interbank settlements	95,534	70,089
Settlements related to brokerage activity	118,405	214,167
Settlements with Tax Office and National Insurance (ZUS)	20,120	23,297
Sundry creditors	115,900	134,470
Accruals:	298,774	363,723
Provision for employee payments	107,759	123,882
Provision for employee retirement	38,084	40,677
Provision for employee jubilee payments	-	268
IT services and bank operations support	78,939	113,059
Consultancy services and business support	21,942	26,248

PLN'000	31.12.2015	31.12.2014
Other	52,050	59,589
Deferred income	25,927	20,328
Other	-	2,963
Other liabilities, total	**722,872**	**880,214**
Including financial liabilities*	676,825	836,589

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

34. Financial assets and liabilities by contractual maturity

As at 31 December 2015

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)	18	758,853	519,475	4,408	38,000	196,970	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	4,692,560	163,238	-	1,822,346	1,198,152	1,508,824
Financial assets available-for-sale							
Debt securities available-for-sale	21	18,351,259	-	-	131,604	11,781,131	6,438,524
Amounts due from customers (gross)							
Amounts due from financial sector entities	24	2,050,985	1,527,285	70,135	213,565	240,000	-
Amounts due from non-financial sector entities	24	17,509,892	7,456,761	1,357,325	2,328,206	4,904,883	1,462,717
Amounts due to banks	30	6,963,561	5,986,214	750,000	69,848	157,468	31
Amounts due to customers							
Amounts due to financial sector entities	31	3,569,648	3,451,621	112,616	4,755	639	17
Amounts due to non-financial sector entities	31	28,016,655	27,237,673	519,395	247,844	11,690	53

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)	18	2,068,565	1,508,644	216	354,470	205,235	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	7,096,875	162	179,636	759,557	4,611,917	1,545,603
Financial assets available-for-sale							
Debt securities available-for-sale	21	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	24	1,040,446	689,652	70,000	240,794	40,000	-
Amounts due from non-financial sector entities	24	16,528,932	7,712,220	1,433,757	1,533,266	4,498,125	1,351,564
Amounts due to banks	30	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	31	3,115,435	3,068,882	42,988	2,912	639	14
Amounts due to non-financial sector entities	31	26,517,163	25,756,115	445,186	303,973	11,826	63

35. 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 2015, 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 2014.

The Bank has not issued preferred shares.

Both in 2015 and 2014, there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2015 and 31 December 2014, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital:

	Value of shares (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 2015 and during the period from the publication of the previous interim quarterly report for Q3 2015 until the day of the publication of this annual consolidated financial statement for 2015, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2015, supplementary capital was PLN 3,001,525 thousand (31 December 2014: PLN 3,000,298 thousand). Supplementary capital is designated for offsetting financial 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 includes the amount of 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.

Revaluation reserve

PLN'000	**31.12.2015**	**31.12.2014**
Revaluation of financial assets available-for-sale	**(163,613)**	**52,873**

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

Other reserves

PLN'000	**31.12.2015**	**31.12.2014**
Reserve capital	2,349,602	2,374,496
General risk reserve	521,000	521,000
Net actuarial losses on specific services program valuation	(5,012)	(5,898)
Foreign currency translation adjustment	3,919	3,925
Other reserves, total	**2,869,509**	**2,893,523**

On 22 June 2015, the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2014, deciding to appropriate the amount of PLN 622 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 2014

At the meeting on June 22, 2015, the Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. (hereinafter **WZ**) adopted a resolution on distribution of the net profit for 2014. The WZ resolved to appropriate the amount of PLN 970,800,828.00 to the dividend payment, which means that the dividend per one ordinary share is PLN 7.43. 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 6, 2015 (day of dividend) and the day of the dividend payment for July 24, 2015 (day of the dividend payment).

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Declared dividends

On 3 March 2016, the Bank’s Management Board adopted a resolution on the proposed distribution of profit for 2015. The Bank’s Management Board has proposed to allocate the amount of PLN 611,486,928.00 for the dividend payment. The dividend has a cash character. This means that the dividend per share amounts to PLN 4.68. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 4 July 2016 and the dividend payment date was designated as 21 July 2015. This proposal of the Bank’s Management Board will be submitted to the Supervisory Board for an opinion and then to the General Shareholders’ Meeting for approval.

36. 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 2015, 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 held for trading	374,878	374,869	Up to 1 week	374,901
Debt securities available-for-sale	1,460,086	1,437,092	Up to 1 week	1,437,254

including interest

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

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

As at 31 December 2015 and as at 31 December 2014, assets sold through repo cannot be further traded.

In 2015, the total interest expense on repurchase agreements was PLN 7 158 thousand (in 2014: PLN 14,086 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 2015, 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	18,142	18,169	Up to 1 week	18,144
	196,965	182,177	Up to 2 years	178,886
Amounts due from customers:				
from financial sector entities	1,356,247	1,360,227	Up to 1 week	1,356,441

including interest

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 2015 and 31 December 2014, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2015, the total interest income on reverse repurchase agreements was PLN 36,175 thousand (in 2014: PLN 42,230 thousand).

As at 31 December 2015, the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 988,102 thousand (as at 31 December 2014: PLN 1,005,545 thousand).

37. 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 the master agreements such as ISDA, the 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 the net amount of receivables and liabilities.

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

PLN'000	31.12.2015		31.12.2014	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	2,172,436	2,184,726	5,476,854	5,597,147
Value of collateral received/placed	(94,442)	(220,020)	(180,008)	(359,622)
Assets and liabilities subject to offsetting under the master agreement	**2,077,994**	**1,964,706**	**5,296,846**	**5,237,525**
Maximum amount of potential offset	(1,913,847)	(1,913,847)	(5,225,136)	(5,225,136)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**164,147**	**50,859**	**71,710**	**12,389**

38. 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.

Fair value of instruments within fair value hedge accounting of securities

PLN'000	31.12.2015		31.12.2014	
	Nominal value	Fair value	Nominal value	Fair value
Hedged instruments				
Debt securities available-for-sale				
Treasury bonds	4,431,015	4,657,996	-	-
Hedging instruments				
Derivative instruments				
Interest rate swaps – positive valuation	780,220	1,795	-	-
Interest rate swaps – negative valuation	3,650,795	112,383	-	-

39. 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 conditions between the market participants at the measurement date.

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

As at 31 December 2015

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	2,170,237	-	-	2,170,237	2,170,237
Amounts due from banks	18	-	757,103	-	-	757,103	757,105
Financial assets held-for-trading	19	6,987,284	-	-	-	6,987,284	6,987,284
Hedging derivatives	20	1,795	-	-	-	1,795	1,795
Debt securities available-for-sale	21	-	-	18,351,259	-	18,351,259	18,351,259
Equity investments valued at equity method	22	-	-	-	7,768	7,768	7,768
Equity investments available-for-sale	23	-	-	67,744	-	67,744	67,744
Amounts due from customers	24	-	18,975,471	-	-	18,975,471	19,051,525
		6,989,079	**21,902,811**	**18,419,003**	**7,768**	**47,318,661**	**47,394,717**
Financial liabilities							
Amounts due to banks	30	-	-	-	6,963,561	6,963,561	6,963,525
Financial liabilities held-for-trading	19	3,247,523	-	-	-	3,247,523	3,247,523
Hedging derivatives	20	112,383	-	-	-	112,383	112,383
Amounts due to customers	31	-	-	-	31,586,303	31,586,303	31,585,503
		3,359,906	**-**	**-**	**38,549,864**	**41,909,770**	**41,908,934**

As at 31 December 2014

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	1,522,949	-	-	1,522,949	1,522,949
Amounts due from banks	18	-	2,065,685	-	-	2,065,685	2,070,670
Financial assets held-for-trading	19	12,721,573	-	-	-	12,721,573	12,721,573
Debt securities available-for-sale	21	-	-	14,435,099	-	14,435,099	14,435,099
Equity investments valued at equity method	22	-	-	-	7,765	7,765	7,765
Equity investments available-for-sale	23	-	-	8,211	-	8,211	8,211
Amounts due from customers	24	-	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	30	-	-	-	5,122,576	5,122,576	5,120,810

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Financial liabilities held-for-trading	19	6,770,922	-	-	-	6,770,922	6,769,403
Amounts due to customers	31	-	-	-	29 632 598	29 632 598	29 632 598
		6 770 922	**-**	**-**	**34 755 174**	**41 526 096**	**41 522 811**

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 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 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 2015, 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 2015

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	4,307,386	2,679,898	-	6,987,284
derivatives		154	2,266,978	-	2,267,132
debt securities		4,279,640	412,920	-	4,692,560
equity instruments		27,592	-	-	27,592
Hedging derivatives	20	-	1,795	-	1,795
Debt securities available-for-sale	21	16,842,252	1,509,007	-	18,351,259
Equity investments	23	1,006	-	63,323	64,329
Financial liabilities					
Financial liabilities held-for-trading	19	988,485	2,259,038	-	3,247,523
short sale of securities		988,102	-	-	988,102
derivatives		383	2,259,038	-	2,259,421
Hedging derivatives	20	-	112,383	-	112,383

As at 31 December 2014

PLN'000	Note	Level I	Level II	Total
Financial assets				
Financial assets held-for-trading	19	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	21	8,753,310	5,681,789	14,435,099

PLN'000	Note	Level I	Level II	Total
Financial liabilities				
Financial liabilities held-for-trading	19	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 2015, changes of financial assets and liabilities priced up to the fair value determined using non-market parameters of importance are presented the table below:

PLN'000	Financial assets available-for-sale
	Equity investments
As at January 2015	**-**
sum of increases and decreases	
in income statement	-
in statement of comprehensive income	63 323
As at December 2015	**63 323**

On the 31st of December 2015 the amount of financial assets classified to Level III includes the share of PLN 63,323 thousand in Visa Europe Ltd. Pricing to the fair value was carried out using information held by the Bank in relation to the acquisition transaction of Visa Europe Ltd. by Visa Inc.

The Management Board of Bank Handlowy w Warszawie S.A. has received the information regarding the proposed allocation of settlement of the Visa Europe Limited takeover by Visa Inc. The Bank's share in the purchase price includes:

(a) EUR 14,859,232.00 in cash, equivalent of PLN 63,322,617.17 at the average NBP exchange rate of December 31, 2015;

(b) EUR 5,098,891.00 in Visa Inc. stock, equivalent of PLN 21,728,924 at the average NBP exchange rate of December 31, 2015.

The above amounts can be adjusted with the transaction costs and following potential justified requests for adjustment of the awarded amounts submitted by Visa Europe members. Visa Europe members hold the right to appeal. The process of reviewing appeals will last until 1 March 2016. The final amounts allocated on individual participants of the transaction will be known on its finalization (closing date), which is expected in the second quarter of 2016. The transaction is subject to regulatory approvals.

The transaction between Visa Inc. and Visa Europe provides for a conditional payment, "earn-out" type and payable in cash after the period of 16 quarters after the settlement of the transaction, of which impact on the Bank's result is unknown.

Accordingly, as at 31 December 2015, the Bank has determined the fair value of the share in Visa Europe Ltd in the amount of EUR 14,859,232.00 – equivalent PLN 63,322,617,17 (at the average NBP exchange rate as of 31 December 2015), and the difference between the previous value of the share of PLN 45 and determined fair value has been recognized in other comprehensive income.

The Bank had not taken into valuation the equity part due to the lack of possibility of a fair value reliable estimation on December 31, 2015.

In 2015 and 2014, the Group did not make any transfers between levels of financial instruments fair value according to the method used to of establishing fair value.

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.

Other equity investments

In case of other equity investments, 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 2015, among all equity investments where fair value could not be established, the Group sold the shares in Polski Koncern Mięsny DUDA S.A representing 2.81% of the share in the capital and 2.81% of votes at the General Meeting. The balance value of sold shares amounted to PLN 3,517 thousand.

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;
- Part of 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.

Amounts due from customers and banks

The 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.

The methods of valuation mentioned above are classfies to the third level of the fair value financial hierarchy: assets valued on the basis of valuation techniques using relevant parameters not market-based.

Amounts due to banks and customers

In the 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

40. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2015, 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 2015.

The total value of liabilities of the Bank and its subsidiaries on all pending legal proceedings did not exceed 10% of the Bank's equity in 2015.

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 2015, the Bank was, among others, a party to 17 court proceedings associated directly with derivative transactions that have not been legally terminated: in 10 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions;

they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. In 2015, in court proceedings associated with derivative transactions where the Bank was defendant or plaintiff, 8 have been legally terminated, 4 were issued in favor of the Bank and in 4 cases the Bank concluded a compromise.

The Bank was 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 Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned 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. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013, SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set up at the amount of PLN 1,775,720. On October 6, 2015, the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. The Bank is analyzing the justification of the Appeal Court verdict to assess whether is a possibility to file the extraordinary appeal to the Supreme Court.

In 2015, the Bank made a significant settlement due to the court case. As a result of the dispute's final settlement, the Bank has made a sentenced payment to two plaintiff in the amount of PLN 16,291 thousand, there was provision made in 2015 for a major part of this amount.

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	**31.12.2015**	**31.12.2014**
Financial and guarantees liabilities granted		
Letters of credit	160,400	208,126
Guarantees granted	2,101,477	1,779,425
Credit lines granted	14,618,126	13,161,336
Underwriting other issuers' securities issues	1,138,000	1,264,450
Other guarantees	29,531	33,583
Reverse repurchase transactions with a future currency date	-	189,650
	18,047,534	**16,636,570**

PLN'000	**31.12.2015**	**31.12.2014**
Letters of credit by category		
Import letters of credit issued	160,065	207,208
Export letters of credit confirmed	335	918
	160,400	**208,126**

The Group makes provisions for financial and guarantees commitments granted. As at 31 December 2015, the provisions created for financial and guarantees commitments granted amounted to PLN 10,451 thousand (31 December 2014: PLN 13,238 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	**31.12.2015**	**31.12.2014**
Financial and guarantees liabilities received		
Finance	-	708,148
Guarantees	15,470,264	6,199,449
	15,470,264	**6,907,597**

41. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2015	31.12.2014
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	1,623,456	1,726,049
credit received	143,903	208,341
Amounts due to customers		
securities sale and repurchase agreements	188,505	-
	1,955,864	**1,934,390**

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

PLN'000	31.12.2015	31.12.2014
Assets pledged		
Debt securities held-for-trading	186,373	-
Debt securities available-for-sale	1,943,149	2,194,933
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	286,641	381,971
Amounts due from customers		
Stock market trading guarantee funds and settlements	186,007	98,011
Other assets		
Settlement of transactions in financial instruments	-	-
	2,602,170	**2,674,915**

As at 31 December 2015, 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 of PLN 208,791 thousand (31 December 2014: PLN 176,088 thousand) collateral against credit received: PLN 274,272 thousand (31 Decemeber 2014:PLN 294,575 thousand) and the collateral against securities sold with repurchase agreement in the amount of PLN 1,460,086 thousand (31 December 2014: PLN 1,724,270 thousand).

Debt securities held-for-trading as at 31 December 2015 constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

In addition, one of the repo transaction is hedged by reverse repo transaction balance receivables in the amount of PLN 188,505 thousand).

For more details on assets covering the Bank's obligations under repo transactions, see Note 36.

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.

42. 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 2015, the Bank maintained approx. 10.8 thousand securities accounts (31 December 2014: over 10 thousand accounts).

43. Operating leases

Leases where the Group is the lessee

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

PLN'000	**31.12.2015**	**31.12.2014**
Less than 1 year	31,629	34,411
Between 1 and 5 years	65,787	80,799
More than 5 years	11,748	2,876
	109,164	**118,086**
Total annual rentals for contracts for an unspecified period of time	**2,522**	**2,884**

The Group uses office space and cars under operating lease contracts.

Most of the 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 2015 amounted to PLN 34,709 thousand (in 2014: PLN 36,129 thousand).

The car leases are signed for 4 years. Lease payments are based on a fixed interest rate during all lease period. In 2015, total amount of leasing fees amounted to PLN 4,253 thousand (in 2014: PLN 1,169 thousand).

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

Leases where the Group is the lessor

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

PLN'000	**31.12.2015**	**31.12.2014**
Less than 1 year	1,864	2,223
Between 1 and 5 years	1,926	2,416
	3,790	**4,639**
Total annual rentals for contracts for an unspecified period of time	**8,502**	**8,712**

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 2015 to PLN 9,199 thousand (in 2014: PLN 7,593 thousand).

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

44. Cash flow statement

Additional information:

PLN'000	**31.12.2015**	**31.12.2014**
Cash related items:		
Cash in hand	477,105	495,408
Nostro current account in Central Bank	1 693,132	1,027,541
Current accounts in other banks (nostro, overdrafts on loro accounts)	184,115	209,966
	2,354,352	**1,732,915**

45. Transactions with the key management personnel

PLN'000	31.12.2015		31.12.2014	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**1,103**	**-**	**2,771**	**-**
Deposits				
Current accounts	4,000	4,481	3,344	6,143
Term deposits	10,989	8,062	2,632	123
	14,989	**12,543**	**5,976**	**6,266**

As at 31 December 2015 and 31 December 2014, 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 the work relationship, among contracts of employment between the Bank and Members of the Management Board, only in one case of one Member of Management Board the contract includes a provision on the financial compensation in the 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 the case of one member of the Management Board – of 6 months) from the date of employment termination, the member of the Management Board is obligated to refrain from competitive activities against the Bank. Due to limitations mentioned above, the Bank will be obliged to pay the compensation to the member of the Management Board.

46. Related parties

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

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

The transactions with related parties, resulting from the current Group's activities mainly include loans, deposits, guarantees and derivatives transactions.

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

Transactions with Citigroup Inc. entities

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

PLN'000	31.12.2015	31.12.2014
Receivables, including:	174,358	277,201
Placements	-	104,914
Liabilities, including:	4,338,922	2,695,589
Deposits	3,801,172	2,081,553
Loans received	41,337	118,285
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	1,337,826	4,632,733
Assets of derivative hedging instruments	1 795	-
Liabilities held-for-trading	1,307,730	4,514,920
Liabilities due to hedging derivatives	90,464	-
Contingent liabilities granted	287,814	235,286
Contingent liabilities received	103,458	869,933

PLN'000	**31.12.2015**	**31.12.2014**
Contingent transactions in derivative instruments (nominal value), including:	96,302,028	235,984,565
Interest rate instruments	79,711,721	214,744,922
FRA	12,641,270	33,970,000
Interest rate swaps (IRS)	45,355,519	155,007,205
Currency – interest rate swaps (CIRS)	20,628,005	25,394,856
Interest rate options	172,638	304,832
Futures contracts	914,289	68,029
Currency instruments	15,964,479	20,708,532
FX forward/spot	1,229,628	879,675
FX swap	10,916,585	17,254,092
Foreign exchange options	3,818,266	2,574,765
Securities transactions	184,842	288,079
Securities purchased pending delivery	93,569	89,933
Securities sold pending delivery	91,273	198,146
Commodity transactions	440,986	243,032
Swaps	406,492	209,697
Options	34,494	33,335

PLN'000	**2015**	**2014**
Interest and commission income	65,996	51,562
Interest and commission expense	61,563	10,923

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 2015 amounted to PLN (58,573) thousand (as at 31 December 2014: PLN 117,813 thousand). The Bank runs a compression of derivative transaction portfolios periodically. It is one of the risk-mitigation techniques recommended by "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulation, this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore, the 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 2015 and 2014 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	**2015**	**2014**
General administrative expenses	183,754	173,003
Other operating income	8,968	8,000

In 2015 the capitalization of investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 11,301 thousand (in 2014: PLN 1 070 thousand).

47. 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 contribution 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 7%. 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 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 and under conditions specified in 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 of January 2015, employees with long-term work-experience (10, 20, 30 years 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	**31.12.2015**	**31.12.2014**
Provision for remuneration	66,424	70,941
Previsions for unused leave	19,789	20,693
Provision for employees' retirement and pension benefits	38,084	40,677
Provisions for employees' jubilee payments	-	268
Provision for employees' equity compensation	21,546	32,249
Provision for workforce restructuring	680	158
	146,523	**164,986**

The provision for retirement and pension benefits is created individually on the basis of an actuarial valuation performed periodically by an external independent actuary. The valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2015, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. An important factor affecting the amount of the provision is the adopted financial discount rate which was adopted by the Bank at the level of 3.25%. In 2014 the adopted financial discount rate was 2.75%.

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

PLN'000	2015		2014	
	Provision for retirement allowances	Provision for jubilee payments	Provision for retirement allowances	Provision for jubilee payments
As at 1 January	**40,677**	**268**	**31,465**	**3,533**
Increases (due to):	3,478	-	10,758	1,717
Actuarial profit/loss on revaluation	(1,093)	-	7,281	-
Including those resulting from:				
Change of economic assumptions	(1,088)	-	3,912	-
Change of demographic assumptions	-	-	3,369	-
Experience adjustment	(5)	-		
Remuneration cost	3,450	-	1,706	1,649
Interest cost	1,172	-	1,422	-
Past employment cost	-	-	122	-
Provision write-offs	-	-	24	-
Other increases	(51)	-	203	68
Decreases (due to):	(6,071)	(268)	(1,546)	(4,982)
Past employment cost	(3,680)	-	(1,175)	-
Provisions utilisation	(2,391)	(268)	(275)	(4,100)
Reversal of provisions	-	-	(96)	(882)
As at 31 December	**38,084**	**-**	**40,677**	**268**

Analysis of sensivity for significant actuarial assumptions

PLN'000	2015	2014
	Provision for retirement and pension allowances	Provision for retirement and pension allowances
Central value	38,084	40,677
Decrease of remuneration growth rate to 0.5%	35,340	35,122
Increase of remuneration growth rate to 2.5%	41,116	47,452
Rotation decrease by 10%	39,866	42,648
Rotation increase by 10%	36,471	38,900
Decrease of discount rate by 0.5%, including:	41,086	43,885
Falling to benefits paid withing 1 year	2,706	4,030
Increase of discount rate by 0.5%, including:	35,390	37,806
Falling to benefits paid withing 1 year	2,702	4,029

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

In 2015, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 25,286 thousand (in 2014: PLN 22,218 thousand).

Employment in the Group:

FTEs	2015	2014
Average employment in the year	4,146	4,355
Employment at the end of the year	3,986	4,170

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. In the year 2015 the SOP programme was completed. All the options which had not been completed until the 29th of October 2015 expired.

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. As a general rule, the employee has his right for options revoked on the time of employment termination in the Citigroup, provided the termination of said contract „Capital Accumulation Program – Prospectus” for granted options. Deferred shares granted in 2011-2014 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

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

In 2012 Bank 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 4th of October 2011. According to the Policy, the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and the Bank’s financial results.

A portion of the Variable Remuneration of persons covered by the Policy will be paid in tranches during 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 18 January 2016
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	6, 18, 30 and 42 months after grant date
Vesting date	6, 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank’s results, individual performance of the employee and employment in the Group in 2013-2016 in relation to the award from 2013, and in 2014-2017 in relation to the award from 2014 and in 2015-2018 and in relation to 2015 reward and in 2016-2019 in respect of reward from 2016.
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 18 January 2016
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	18, 30 and 42 months after grant date
Vesting date	12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on Bank results, individual performance of the employee and employment in the Group in 2013-2016 in relation to the award from 2013, and in 2014-2017 in relation to the award from 2014 and in 2015-2018 in relation to the award from 2015 reward and in 2016-2019 in relation to the award from 2016.
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, 2014, 2015 and 2016. 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.

In 2015 the Bank adopted policy of key persons in the Bank Handlowy w Warszawie S.A remuneration specifying rules of payment for the members of the Board and other persons performing key functions, including the persons with significant influence regarding Bank's risk profile. This policy implements the provisions related to formulation of the remuneration principles in banks in accordance with law regulations, Principles of Institutional Governance Rules for Supervised Institution adopted by the Polish Financial Supervision Auditory and Best Practices of GPW Listed Companies 2016.

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:

All the options in the SOP programme had been executed or expired on December 31, 2015.

CAP Program	Grant date	Exercise price/stock price at grant date [USD]	Number of eligible employees	Number of options/ shares
1	17.01.2012	30.54	22	12,762
2	19.02.2013	43.93	11	4,485
3	18.02.2014	49.66	10	6,666
4	16.02.2015	50.07	3	2,113

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	34,768
2	20.01.2014	104.86	24	42,227
3	20.01.2015	103.98	33	59,616

	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 and 13.33% after each of the following years
Expected average life cycle of the instrument	1 year after the time of rights acquisition	At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	8.16%	8.16%	8.16%
Expected variances	23.56%	-	-
Risk free interest rate (for USD)	1.00%	-	-
Expected dividends (in USD per one share)	0.04	-	-
Fair value of one instrument* (in USD)	0.00 – 8.23 (USD)	51.75 (USD)	71.90 (PLN)

Varies depending on the date of exercise

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

	31.12.2015		31.12.2014	
	Number	Weighted average strike price [USD]	Number	Weighted average strike price [USD]
At the beginning of the period	73,465	40.80	93,699	45.36
Allocated in the period	-	-	-	-
Transfers	-	-	-	-
Redeemed in the period	51,220	52.94	18,138	52.66
Expired in the period	22,245	-	2,096	-
At the end of the period	-	-	73,465	40.80
Exercisable at the end of the period	-	-	73,465	40.80

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

	31.12.2015		31.12.2014	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	53,658	33.11	82,120	39.21
Allocated in the period	1,000	50.07	7,943	49.66
Transfers	3,250	43.89	4,336	40.20
Redeemed/expired in the period	31,882	-	40,741	-
At the end of the period	26,026	39.33	53,658	33.11

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

	31.12.2015		31.12.2014	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	132,876	100.24	104,302	96.03
Allocated in the period	116,484	103.98	122,566	104.86
Executed in the period	112,749	91.86	93,992	109.10
Redeemed/expired In the period	-	-	-	-
At the end of the period	136,611	102.23	132,876	100.24

On 31 December 2015, the book value of liabilities from the phantom share and SOP and CAP programs amounted to PLN 30,686 thousand (31 December 2014: PLN 40,473 thousand). The costs recognized in this respect in 2015 amounted to PLN 9,816 thousand (in 2014: 16,696).

48. 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 a 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;
- The principles of prudent and stable risk management which constitute, together with the ICAAP Document, the risk management strategy, including operational risk strategy;
- General acceptable in Bank risk level ("risk appetite") within the scope of summarizing the process of estimating and allocating interior equity for a given year's document.

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

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

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

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

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

Risk and Business 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 (further defined). 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 in the field of credit risk management is to support the long-term plan for the stable development of the credit portfolio while maintaining its proper quality. Credit risk is minimized through the Group's regulations and implemented controls.

Principles of the Credit Risk Management Policy

The Risk Management unit 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 authorities system assuming that credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions.

- 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 accordance with internal BHW normative acts and generally applicable laws and regulations issued by the appropriate regulators.

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

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

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

Credit risk assessment and rating

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

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

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

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

Credit risk mitigation within the set risk appetite is an ongoing and key element of the Bank's 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 regain 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 exposure monitoring and an 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 2015, 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 42,387 thousand (31 December 2014: PLN 56,317 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 a mortgage.

In addition to current concentration levels monitoring in accordance to set limits; Bank monitors also potential geographical concentration and concentration resulting from indirect commitments – however, in accordance to 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 2015, 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 6,199,373 thousand, i.e., 130% of equity (31 December 2014: PLN 5,733,506 thousand, i.e., 116%). In 2015 and 2014 the Group complied with the provisions on limits of concentration of exposure.

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

PLN'000	31.12.2015			31.12.2014		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	360,285	700,722	1,061,007	85,160	916,365	1,001,525
GROUP 2	120,987	791,637	912,624	2	756,906	756,908
CLIENT 3	500,000	250,000	750,000	575,100	341,450	916,550
CLIENT 4	700,000	-	700,000	550,000	-	550,000
GROUP 5	125,146	502,862	628,008	184,949	442,417	627,366
GROUP 6	3	601,358	601,361	1	203,730	203,731
GROUP 7	447,882	84,545	532,427	660,806	107,837	768,643
GROUP 8	419,442	94,426	513,868	93,464	44,768	138,232
CLIENT 9	-	500,078	500,078	-	500,051	500,051
CLIENT 10	450,000	-	450,000	463,200	-	463,200
GROUP 11	-	-	-	467,864	144,599	612,463
GROUP 12	-	-	-	220,486	176,527	397,013
Total	**3,123,745**	**3,525,628**	**6,649,373**	**3,301,032**	**3,634,650**	**6,935,682**

**Excluding investment in shares and other securities*

The limits of the 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 an 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 trade portfolio. Own funds for determining limits of exposure purposes were determined according to Regulation No 575/2013.

As at 31 December 2015, the Group had an exposure to one entity 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 2015.

*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 industrial sectors.

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

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

Gross amounts due from customers and banks by type of business

PLN'000		31.12.2015	31.12.2014
Gross amounts due from economic entities and banks			
Financial		2,713,279	3,379,035
Production		4,323,731	4,288,366
Services		1,034,349	930,776
Other		5,811,927	4,759,600
		13,883,286	**13,357,777**
Gross amounts due from individual customers		**6,436,445**	**6,280,166**
	(see Note 18, 24)	**20,319,730**	**19,637,943**

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.

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.

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 investment levels 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.

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	31.12.2015	31.12.2014
Receivables due from Central Bank	17	1,693,132	1,027,541
Gross receivables due from banks	18	758,853	2,068,565
Gross receivables due from institutional customers	24	13,124,432	11,289,212
Gross receivables due from individual customers	24	6,436,445	6,280,166
Debt securities held-for-trading	19	4,692,560	7,096,875
Derivative instruments	19	2,267,132	5,624,460
Hedging derivatives	20	1,795	-
Debt securities available-for-sale	21	18,351,259	14,435,099
Other financial assets	29	204,430	327,676
Contingent liabilities granted	40	18,047,534	16,636,570
		65,577,572	**64,786,164**

Commitment due to customers in terms of credit risk:

PLN'000	31.12.2015			31.12.2014		
	Amounts due from institutional customers	Amounts due from individual customers	Amounts due from banks	Amounts due from institutional customers	Amounts due from individual customers	Amounts due from banks
Impaired receivables						
Individual receivables						
Gross amount	**337,170**	**11,349**	**-**	**399,482**	**10,822**	**-**
Impairment write-off	290,809	5,523	-	336,205	3,696	-
Net amount	**46,361**	**5,826**	**-**	**63,277**	**7,126**	**-**
Portfolio receivables						
Gross amount	**23,889**	**327,216**	**-**	**57,087**	**471,158**	**-**
Impairment write-off	11,203	212,903	-	45,383	342,305	-
Net amount	**12,686**	**114,313**	**-**	**11,704**	**128,853**	**-**
Not impaired receivables						
by risk rating						
Risk rating 1-4-	9,640,258	-	591,378	7,696,261	-	1,877,441
Risk rating +5-6-	2,915,852	-	167,475	2,902,248	-	191,124
Risk rating +7 and greater	207,263	-	-	234,134	-	-
by delinquency						
no delinquency	-	5,847,336	-	-	5,546,235	-
1–30 days	-	202,475	-	-	198,755	-
31–90 days	-	48,069	-	-	53,196	-
Gross amount	**12,763,373**	**6,097,880**	**758,853**	**10,832,643**	**5,798,186**	**2,068,565**
Impairment	19,478	45,490	1,750	21,990	49,317	2,880
Net amount	**12,743,895**	**6,052,390**	**757,103**	**10,810,653**	**5,748,869**	**2,065,685**
Total net amount	**12,802,942**	**6,172,529**	**757,103**	**10,885,634**	**5,884,848**	**2,065,685**

PLN'000	31.12.2015 Amounts due from institutional customers	31.12.2015 Amounts due from individual customers	31.12.2015 Amounts due from banks	31.12.2014 Amounts due from institutional customers	31.12.2014 Amounts due from Individual customers	31.12.2014 Amounts due from banks
Impairment write-offs for impaired receivables						
Impairment write-offs for individual receivables	**290,809**	**5,523**	**-**	**336,205**	**3,696**	-
Impairment write-offs for portfolio receivables	**11,203**	**212,903**	**-**	**45,383**	**342,305**	-
IBNR provisions						
by risk rating						
Risk rating 1-4-	2,716	-	131	2,274	-	347
Risk rating +5-6	10,124	-	1,619	10,692	-	2,533
Risk rating +7 and greater	6,638	-	-	9,024	-	-
by delinquency						
no delinquency	-	16,993	-	-	18,545	-
1–30 days	-	11,083	-	-	12,245	-
31–90 days	-	17,414	-	-	18,527	-
	19,478	**45,490**	**1,750**	**21,990**	**49,317**	**2,880**
Total impairment write-offs	**321,490**	**263,916**	**1,750**	**403,578**	**395,318**	**2,880**

Receivables due from individual customers not impaired and without delay in payment in terms of overdue history

PLN'000	31.12.2015	31.12.2014
Receivables due from individual customers not impaired and without delay in payment, including:	**5,847,335**	**5,546,235**
receivables at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	344,435	288,910
receivables at least once have exceeded 90 days of delay in payment	5,824	6,694

Receivables not impaired by delinquency

PLN'000	31.12.2015 Amounts due from institutional customers	31.12.2015 Amounts due from individual customers	31.12.2015 Amounts due from banks	31.12.2014 Amounts due from institutional customers	31.12.2014 Amounts due from individual customers	31.12.2014 Amounts due from banks
Receivables with incurred but not recognized (IBNR) losses						
Regular receivables	12,716,875	5,847,335	758,853	10,782,601	5,546,235	2,068,565
Overdue receivables, including:	46,498	250,545	-	50,042	251,951	-
1-30 days	44,897	202,475	-	45,468	198,755	-
Gross amount	**12,763,373**	**6,097,880**	**758,853**	**10,832,643**	**5,798,186**	**2,068,565**

Structure of derivatives in terms of credit risk:

PLN'000	31.12.2015			31.12.2014		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	157,940	2,176	2,071,473	108,828	2,287	5,462,464
Risk rating+5-6-	14,696	-	21,581	25,521	-	22,906
Risk rating +7 and greater	1,061	-	-	2,451	-	3
Total	**173,697**	**2,176**	**2,093,054**	**136,800**	**2,287**	**5,485,373**

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.

PLN'000	31.12.2015		31.12.2014	
	Debt securities held-for-trading	Debt securities available-for-sale	Debt securities held-for-trading	Debt securities available-for-sale
Issuer rating by Fitch agency				
A (including from A to AAA)	4,330,816	18,351,259	5,651,492	14,435,099
BBB-	-	-	1,310,546	-
BBB	-	-	14,799	-
BBB+	361,744	-	-	-
No rating	-	-	120,038	-
Total	**4,692,560**	**18,351,259**	**7,096,875**	**14,435,099**

Other financial assets in the amount of PLN 204 430 thousand at the end of 2015 (PLN 327,676 thousand at the end of 2014) include receivables with delinquency over 90 days in the amount of PLN 1,824 thousand (PLN 1,278 thousand at the end of 2014).

Structure of granted contingent liabilities in terms of credit risk

PLN'000	31.12.2015		31.12.2014	
	Liabilities due to institutional customers	Liabilities due to banks	Liabilities due to institutional customers	Liabilities due to banks
Granted contingent liabilities by risk rating				
Risk rating 1-4-	9,737,033	260,594	8,875,154	360,793
Risk rating+5-6-	2,342,319	5,531	1,977,844	41,370
Risk rating +7and greater	117,362	-	110,261	-
Total	**12,196,714**	**266,125**	**10,963,259**	**402,163**

The granted contingent liabilities due to individual customers in terms of overdue history

PLN'000	31.12.2015	31.12.2014
Granted contingent liabilities due to individual customers, including:	**5,584,695**	**5,271,148**
contingent liabilities at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	307,782	264,365
contingent liabilities at least once have exceeded 90 days of delay in payment	1,748	1,571

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

PLN'000	31.12.2015	31.12.2014
Gross amount		
Receivables with recognized impairment, including:	699,624	938,549
Individual receivables	348,519	410,304
Portfolio receivables	351,105	528,245

PLN'000	31.12.2015	31.12.2014
Receivables without recognized impairment	19,620,106	18,699,394
Total gross amount	**20,319,730**	**19,637,943**
Impairment write-offs		
Receivables with recognized impairment, including:	520,438	727,589
Individual receivables	296,332	339,901
Portfolio receivables	224,106	387,688
Receivables without recognized impairment	66,718	74,187
Impairment write-offs in total	**587,156**	**801,776**
Net amount		
Receivables with recognized impairment, including:	179,186	210,960
Individual receivables	52,187	70,403
Portfolio receivables	126,999	140,557
Receivables without recognized impairment	19,553,388	18,625,207
Total net amount	**19,732,574**	**18,836,167**
Ratio of impairment write-offs to receivables with recognized impairment	**74.4%**	**77,5%**

"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 EBA/ITS/2013/03 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 exposures 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 are insignificant, that is why the Group monitors them at a total level without further portfolio splits.

PLN'000	As of	
	31.12.2015	31.12.2014
Receivables without recognized impairment, including	18,861,253	16,630,827
non-financial sector entities	16,827,402	15,609,377
Institutional customers	10,729,522	9,811,190
Individual customers	6,097,880	5,798,187
Receivables with recognized impairment, including:	699,624	938,551

PLN'000	As of	
	31.12.2015	31.12.2014
non-financial sector entities	682,490	919,555
Institutional customers, including:	343,925	437,575
"forborne"	74,991	63,529
Individual customers, including:	338,565	481,980
"forborne"	31,979	61,722
Total gross amount, including:	**19,560,877**	**17,569,378**
non-financial sector entities	17,509,892	16,528,932
Institutional customers, including:	11,073,447	10,248,765
"forborne"	74,991	63,529
Individual customers, including:	6,436,445	6,280,167
"forborne"	31,979	61,722
Impairment write-off	**(585,406)**	**(798,896)**
On "forborne" receivables	(62,073)	(76,273)
Total net amounts due from customers, including:	**18,975,471**	**16,770,482**
"forborne" receivables	44,897	48,978

"Forborne" exposures by period of overdue as at 31 December 2014

PLN'000	As of	
	31.12.2015	31.12.2014
Not past due	54,634	51,697
Past due, including:	52,336	73,554
Past due less than 30 days	2,635	4,907
Past due 31 - 90 days	4,565	6,450
Past due over 90 days	45,136	62,197
Total gross amount	**106,970**	**125,251**

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 the 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 the:

- 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.

In 2015 the Bank implemented monitoring of liquidity, along with restrictive limits based on the daily gap report that uses stress test assumptions (S2). This change was made to match the approach of the liquidity gap assessment in real terms in the current liquidity risk management process with the methodology used for calculating Basel liquidity ratios LCR and NFSR. In addition to the change presented, no significant changes in processes, procedures, systems, and policies regarding the management of liquidity risk.

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

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

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

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

Liquidity management with accordance to "Risk management principals" in Group 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 asset portfolio to be used in the case of a liquidity contingency;
- Rules for asset disposal and balance sheet restructuring;
- Procedures for restoring customer confidence.

The levels of the cumulative liquidity gap and the level of liquid assets as at 31 December 2015 according to S2 method and 31 December 2014 according to previous method based on the study of the availability of funding in the wholesale market (MAR) are presented below.

The cumulative liquidity gap as at 31 December 2015 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	20,838,740	313,024	410,630	196,967	27,747,431
Liabilities and equity	12,603,752	2,682,201	87,424	59,609	34,073,806
Balance sheet gap in the period	8,234,988	(2,369,177)	323,206	137,358	(6,326,375)
Conditional derivative transactions – inflows	17,752,619	6,507,815	8,138,631	4,750,096	10,799,649
Conditional derivative transactions – outflows	17,618,109	6,565,980	8,125,367	4,761,800	10,976,369
Off-balance-sheet gap in the period	134,510	(58,165)	13,264	(11,704)	(176,720)
Cumulative gap	8,369,498	5,942,156	6,278,626	6,404,280	(98,815)

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)

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

PLN'000	31.12.2015	31.12.2014	Change
Liquid assets, including:	24,951,511	22,752,411	2,199,100
nostro account in NBP and stable part of cash	1,907,692	1,220,437	687,255
debt securities held-for-trading	4,692,560	7,096,875	(2,404,315)
debt securities available-for-sale	18,351,259	14,435,099	3,916,160
Cumulative liquidity gap up to 1 year	6,278,626	(8,961,876)	na
Coverage of the gap with liquid assets	Positive gap	254%	na

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 2015

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	30	6,963,564	5,986,217	750,000	69,848	157,468	31
Financial liabilities held-for-trading							
Short positions in financial assets	19	988,102	988,102	-	-	-	-
Amounts due to customers, including:	31	**31,586,315**	**30,689,306**	**632,011**	**252,599**	**12,329**	**70**
Deposits from financial sector entities	31	3,381,143	3,263,116	112,616	4,755	639	17
Deposits from non-financial sector entities	31	27,894,398	27,191,129	483,580	208,016	11,620	53
Other liabilities	31	310,774	235,061	35,815	39,828	70	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	1,797,159	63,520	102,212	208,112	955,916	467,399
Hedging derivatives	20	112,383	-	-	-	53,684	58,699
Unused credit lines liabilities	40	14,618,126	12,272,291	175,606	376,411	1,089,615	704,203
Guarantee lines	40	2,131,008	2,131,008	-	-	-	-
		58,196,657	**52,130,444**	**1,659,829**	**906,970**	**2,269,012**	**1,230,402**
Derivatives settled on a gross basis							
Inflows		47,262,699	17,657,248	6,433,442	8,035,146	10,778,834	4,358,029
Outflows		47,181,855	17,544,078	6,418,020	8,076,504	10,768,844	4,374,409
		80,844	**113,170**	**15,422**	**(41,358)**	**9,990**	**(16,380)**

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	30	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	19	1,005,545	1,005,545	-	-	-	-
Amounts due to customers, including:	31	**29,632,599**	**28,824,998**	**488,174**	**306,885**	**12,465**	**77**
Deposits from financial sector entities	31	3,115,436	3,068,883	42,988	2,912	639	14
Deposits from non-financial sector entities	31	26,384,512	25,673,498	429,838	269,667	11,446	63
Other liabilities	31	132,651	82,617	15,348	34,306	380	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	5,021,507	60,576	105,369	451,135	2,929,929	1,474,498
Unused credit lines liabilities	40	13,161,336	11,757,667	76,320	141,646	974,907	210,796
Guarantee lines	40	1,813,008	1,813,008	-	-	-	-
		55,756,578	**46,282,823**	**742,621**	**2,867,342**	**4,145,980**	**1,717,812**

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
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)**

MARKET RISK

The processes and organization of market risk management

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

The objective of market risk management is to ensure that the extent of risk accepted within the 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 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 the:

- 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 a 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, manly foreign exchange options and interest rate and optional structures being a reflection of 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 the sale of assets or cancelling of obligations.

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

The table below presents the IRE measures for the Group as at 31 December 2015 and 31 December 2014. 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	**31.12.2015**		**31.12.2014**	
	IRE 12M	**IRE 5L**	**IRE 12M**	**IRE 5L**
PLN	27,809	60,086	50,057	144,859
USD	(14,093)	(70,011)	2,180	(16,129)
EUR	14,002	18,278	19,461	(1,521)

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

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

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

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

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

Hedge accounting program

In addition to the general rules limiting market risk, in particular, interest rate risk, the Group has defined rules for the application of fair value hedge accounting. The main risk, which is hedged under hedge accounting is the risk of changes in interest rates resulting from holding portfolio of securities available for sale (AFS) with fixed interest rates. At the end of each month, 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 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	31.12.2015			31.12.2014			Total in the period 01.01.2015 – 31.12.2015		
	Total	**Securities**	**IRS**	**Total**	**Securities**	**IRS**	**Average**	**Maximum**	**Minimum**
PLN	(2,730)	(4,123)	1,393	(2,434)	(2,434)	-	(2,007)	(531)	(3,783)
USD	(933)	(1,365)	432	(447)	(447)	-	(524)	(25)	(1,455)
EUR	(208)	(208)	-	(556)	(556)	-	(191)	(89)	(562)

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 2015 are presented in the table below:

PLN'000	**31.12.2015**	**31.12.2014**	**In the period 01.01.2015 – 31.12.2015**		
			Average	**Maximum**	**Minimum**
PLN	(66)	(27)	(108)	625	(875)
EUR	(63)	(250)	(24)	145	(411)
USD	96	(36)	(44)	347	(273)

Average exposures to the interest rate risk in the local currency in 2015 was higher comapring to the level from the previous year and amounted to PLN 205 thousand. Average exposures to the interest rate risk in EUR were lower than in 2014 (DV01 amounted to PLN 82 thousand, compared to PLN 186 thousand in the previous year). Average exposure in EUR was at a similar level than in 2014. The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 875 thousand compared to PLN 650 thousand in 2014 and the position in EUR amounted to PLN 411 thousand compared to PLN 565 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 2015:

PLN'000	**31.12.2015**	**31.12.2014**	**In the period 1.01.2015– 31.12.2015**		
			Average	**Maximum**	**Minimum**
Currency risk	96	471	1,259	5,143	72
Interest rate risk	4,147	5,962	6,626	16,962	1,390
Spread risk	4,576	8,910	4,780	10,042	1,548
Total risk	6,061	10,763	8,724	18,375	3,700

The overall average level of the market risk of the trading portfolios was 20% lower in 2015 than the average level in 2014, representing an increase by over PLN 2,186 thousand, mainly as a result of higher exposures to basis spreads. The maximum price risk level was PLN 18,375 thousand, compared to PLN 15,513 thousand in 2014.

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 BondSpot, 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:

31.12.2015

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,116,186	4,241,177	16,721,542	15,477,990	118,561
USD	5,456,076	3,469,607	9,206,843	11,198,528	(5,216)
GBP	28,907	380,021	437,048	46,580	39,354
CHF	310,154	123,080	656,060	845,258	(2,124)
Other currencies	106,768	251,291	2,970,751	2,839,821	(13,593)
	9,018,091	**8,465,176**	**29,992,244**	**30,408,177**	**136,982**

** at present value which is the sum of discounted future cash flows*

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**

** at present value which is the sum of discounted future cash flows*

OPERATIONAL RISK

Assumptions of the operational risk system

The strategic objective of operational risk management is to ensure a consistent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of these risks, as well as the effective reduction of the level of exposure to operational risk, and consequently reduction of the amount of operational risk events and their severity (low level of tolerance policy for operating losses).

Operational risk management is also aimed at the full integration of this risk management processes into business decision-making processes (i.e. business strategy will be supported by an operational risk assessment, and the business will be assessed on the basis of pre-determined indicators of control and operational risk).

While organizing the operational risk management process, the Group takes into account business strategy, the Group's risk profile, macroeconomic environment, available resources of capital and liquidity and regulatory requirements that constitute a framework for the preparation of operational risk control and management system in the Group.

The Management Board and subsidiaries' Management Boards is responsible for the development, implementation and operation of proper operational risk management system through the introduction of appropriate internal regulations, ensures consistency between operational risk management system and Group's Strategy, as well as its proper functioning within the organization through an analysis of information that allow to assess whether the system is adequate for operational risk profile. If needed, the operational risk management system is reinforced through implementation of crucial improvements.

The operational risk management system in the Group is built in a way that ensures proper risk management at every stage, i.e. identification, evaluation, mitigation, control, monitoring and reporting.

The implementation of the strategy by the Management Board shall be assessed by the Supervisory Board, assisted by the Audit Committee and Risk and Capital Management Committee based on synthetic reports submitted by the Management Board at least once a year, determining the scale and types of operational risk that the Group is exposed to, methods of operational risk management, probability of its occurrence, assessment of potential negative impact of operational risk management methods, as well as results of operational risk profile and operational risk appetite monitoring. If necessary, after evaluation the Supervisory Board may request revision of the strategy.

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 (further defined). 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 covers: Technological and technical risk, Outsourcing risk, Misappropriation risk, Money Laundering risk, Information Security risk, External Events risk (Continuity of Business), Tax and Accounting risk, Product risk, Compliance risk, Legal risk, Models risk, and Staffing risk.

Rules of operational risk identification

Each Group's Business Unit identify all significant operational risks related to its processes. This includes identification by the Group's Management of risks associated with all material processes, products, human factors, systems and compliance with applicable laws, regulatory administrative actions, the Group's internal regulations and the Group's strategy, also taking into consideration risk associated to dependence from other entities in the Group.

Operational Risk Profile

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

The target operational risk profile was established with consideration of the scale and structure of operational risk, accepted appetite/tolerance for operational risk, analysis of historical data and utilizing tools applied for operational risk management. Established indicators are monitored for particular operational risk categories and the main areas of the Group's activity.

Assessment of a particular risk category in main Group's areas, of main Group's areas and of the whole Group is based on the above mentioned risk indicators and experts assessment of results of regular business, market and control environment (BEICF-Business, Environmental and Internal Control Factors) monitoring. The profile is established and monitored on a consolidated basis.

An assessment of main Group's areas and the entire Group is monitored in view of the target Risk Profile.

Measurement and assessment

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.

Risk tolerance framework, risk control and mitigation

The group sets tolerance levels for each operational risk category within a determined risk appetite. Excess of the established level of tolerance thresholds for particular operational risk category requires undertaking corrective actions in line with the decision of the Risk and Capital Management Committee.

The Risk and Capital Management Committee and/or Management Board/Management Boards of subsidiaries can decide on the following treatment of the identified risks by:

- accepting (conscious avoidance of activities, aiming at mitigation of probability and results of an event, including ensuring of funds for covering of potential losses);
- mitigation (mainly by adequate definition of processes, products, systems, procedures and implementation of control mechanisms);
- transfer (movement of part or whole risk related to a particular threat to the external party, in particular by outsourcing of activity to anexternal services provider or by insurance);
- avoidance of activities, leading to risk exposure.

In key aspects, processes of risk identification, self-assessment, measurement, monitoring and reporting are unified and generally accepted in all organizational units of the Group. Risk mitigation processes are determined for each entity, and may be different for individual units.

Control is a process designed to mitigate cause(s), reduce the probability of an event occurring and/or minimize the severity of an effect. Risk mitigation measures include also risk transfer mechanisms (outsourcing, insurance). Risk mitigation measures include internal controls as well as risk transfer mechanisms, i.e. transfer of part or whole risk related to a given threat to an external entity, in particular by outsourcing or insurance. The group regularly assesses and monitors the proper functioning of risk transfer mechanisms.

Monitoring and reporting

The Risk and Capital Management Committee, supported by Commissions, is accountable for ongoing monitoring of operational risk. Quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units of the Capital Group are subject of inspections and assessment carried out by the internal audit.

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

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.

Based on synthetic reports, presented periodically by the Management Board at least once a year, prepared based on data resulting from operational risk monitoring, covering scale and types of operational risk the Group is exposed at, the probability of its occurrence, the dimension of its possible negative impact, operational risk management principles and the operational risk profile, the Supervisory Board, supported by the Audit Committee and Risk and Capital Committee, monitors the effectiveness of internal control and risk management (in particular in relation to principles of operational risk management) and the Supervisory Board shall review the implementation by the Management of the strategy of operational risk management.

Assumptions of internal control of operational risk

Within the Management Board, one of its members – Risk Management Sector Head - supervises Independent Control and Operational Risk Department.

The Management Board is supported by the Risk and Capital Management Committee and subordinated Commissions.

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.

Settings of control standards, as well as monitoring of operational risk for key risk categories are supported by specialized organizational units.

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 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.

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

The Audit Department (IA-Internal Audit) is responsible for independent assessment of the effectiveness of operational risk management processes and assessment of adequacy and effectiveness of operational risk management system, as well as for its regular reviews. Results of internal and external audits are considered in the management information system, the process of decision taking with regard to risk management and management of the Bank.

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 6,850,656 thousand as at 31 December 2015 (as at 31 December 2014: PLN 7,410,760 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4,781,008 thousand (as at 31 December 2014: PLN 4,944,496 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	31.12.2015	31.12.2014
I	**Common Equity Tier 1 Capital**	**4,781,008**	**4,944,496**
II	**Total capital requirements, including:**	**2,238,956**	**2,256,721**
	credit risk capital requirements	1,685,320	1,581,701
	counterparty risk capital requirements	78,682	87,247
	Credit valuation correction capital requrements	34,059	54,648
	excess concentration and large exposures risks capital requirements	16,418	64,549
	total market risk capital requirements	86,544	108,215
	operational risk capital requirements	337,933	350,484
	other capital requirements	-	9,877
	Common Equity Tier 1 Capital ratio	**17.1%**	**17.5%**

**Capital Adequacy Ratio was calculated according to the rules stated 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.*

In 2015, as well as in 2014, the Group complied with all the regulatory prudential standards on capital adequacy.

49. Subsequent events

The Act on tax on certain financial institutions of 15 January 2016 came into force on 1 February 2016 (Journal of Laws of 2016 Pos. 68).In the case of the Bank, the taxable amount is an excess of the total assets of more than PLN 4 billion. The law provides for the possibility of reducing the tax base by the value of own funds and the value of assets in the form of Polish Treasury securities as at the last day of the month. The tax rate amounts to 0.0366% of the tax base per month. The first accounting period for which the Bank will make the calculation and payment of the tax is February 2016. Initially, the Bank estimates the decrease on profit before taxation due to the tax on certain financial institutions will total approx. PLN 100 million per year. The amounts paid are not deductible for the purposes of income tax in the calculation of corporate income tax.

Signatures of Management Board Members

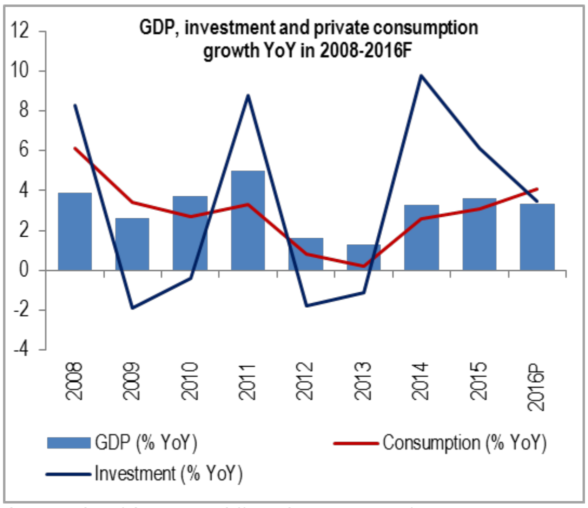
Date	Name	Position/function	Signature
07.03.2016	Sławomir S. Sikora	President of the Management Board	
07.03.2016	Maciej Kropidłowski	Vice-President of the Management Board	
07.03.2016	David Mouillé	Vice-President of the Management Board	
07.03.2016	Barbara Sobala	Vice-President of the Management Board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

Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2015

Contents

I. Poland's economy in 2015

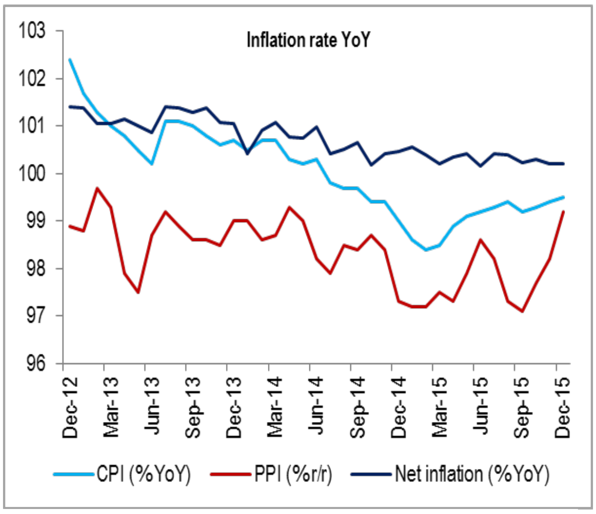
1. Main macroeconomic trends



Source: Chief Statistical Office, Citi Handlowy forecast

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

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

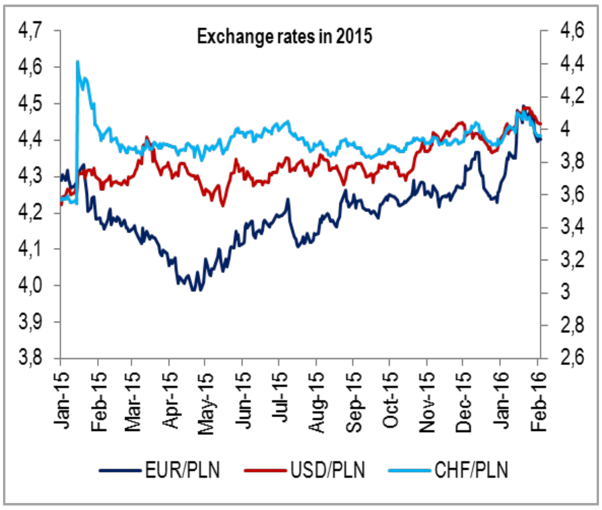


Source: Chief Statistical Office, own calculations

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

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

2. Money and forex



Source: Bloomberg

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

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

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

3. Capital market

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

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

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

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

Stock market indices, as at 31 December 2015

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

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

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

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

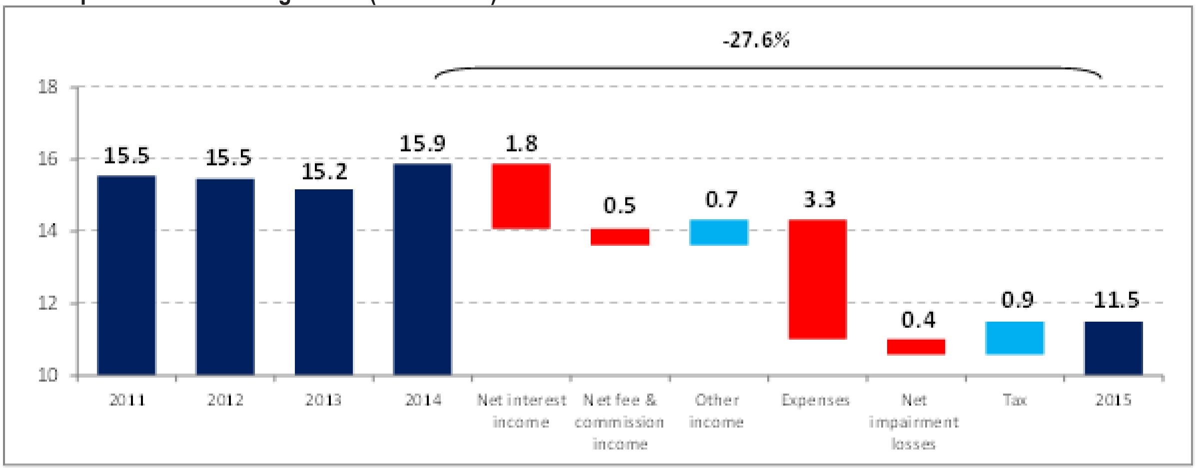
*Source: WSE, Dom Maklerski Banku Handlowego S.A, * including session and block transactions.*

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

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

4. Banking sector

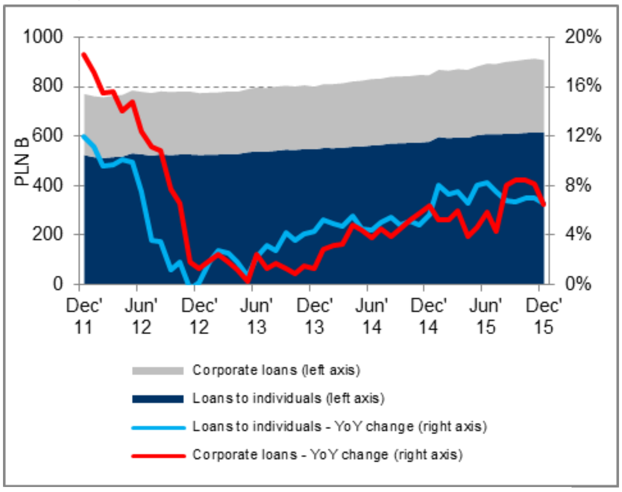
Net profit of the banking sector (PLN billion)



Source: KNF, own calculations

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

Loans granted to corporate and individual clients

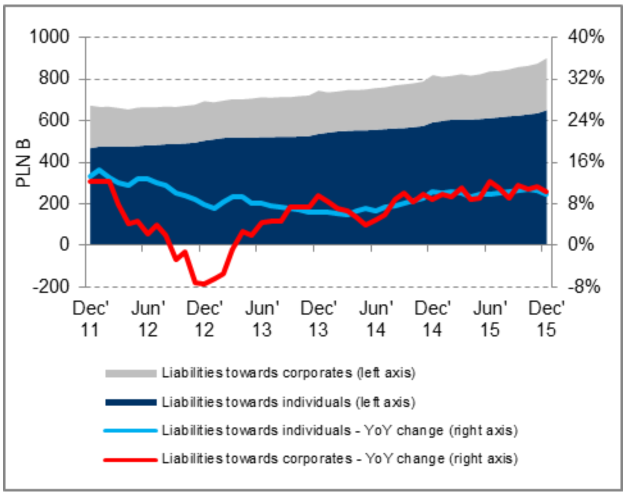


Source: National Bank of Poland, own calculations

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

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

Corporate and individual deposits

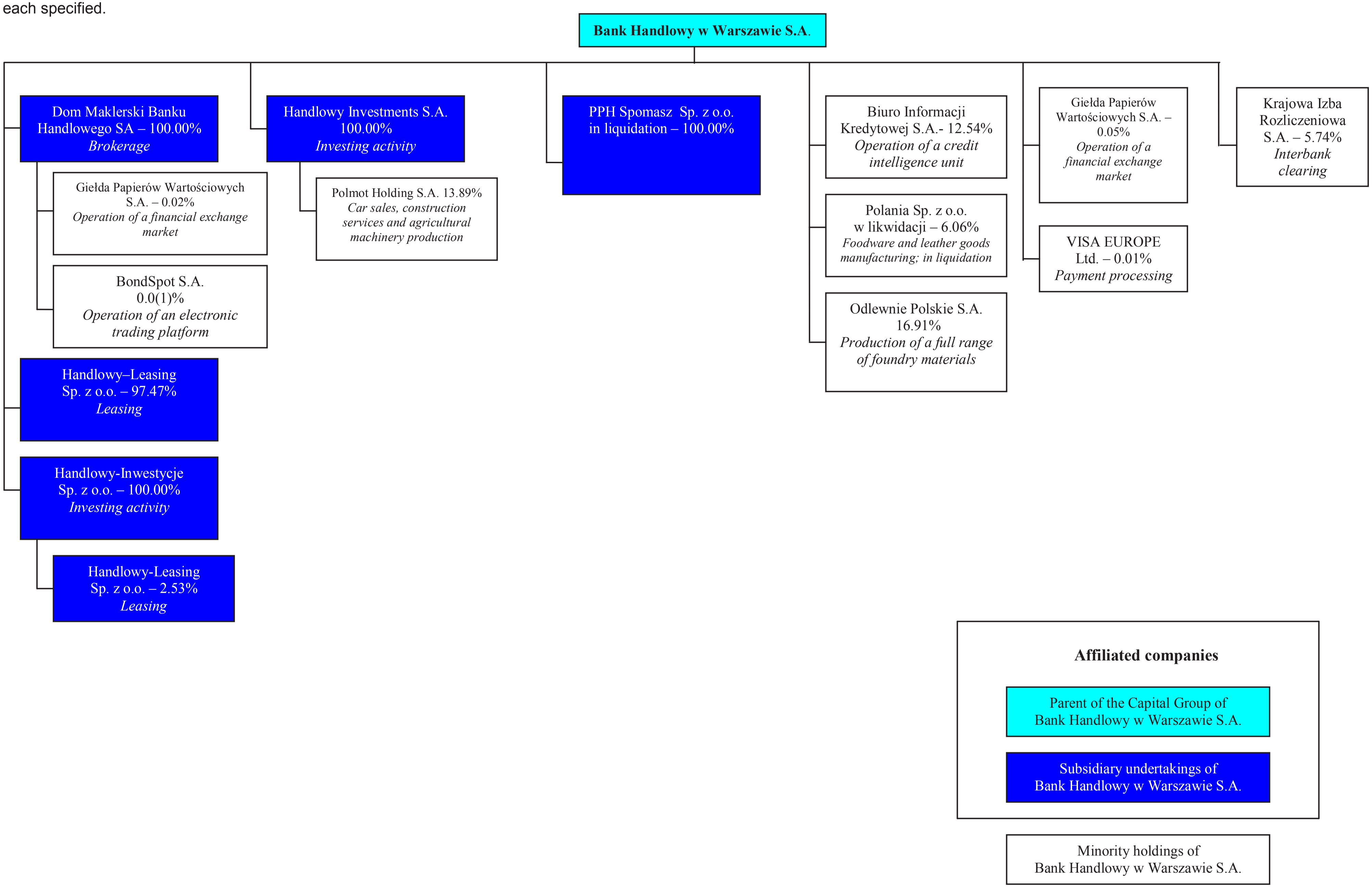


Source: National Bank of Poland, own calculations

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

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

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



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

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

GROUP ENTITIES FULLY CONSOLIDATED

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

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

GROUP ENTITIES NOT FULLY CONSOLIDATED

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

**** Pre-audit data*

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

1. Major Developments in 2015

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

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

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

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

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

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

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

2. Summary financial data of the Group

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

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

3. Financial results of the Group in 2015

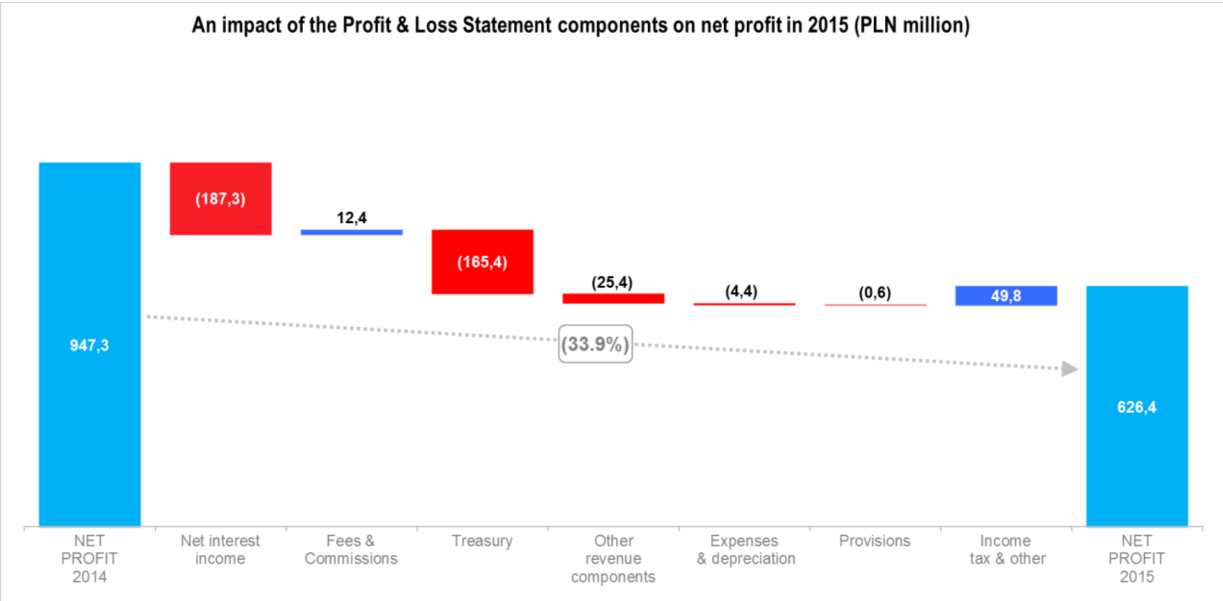
3.1 Income statement

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

Selected income statement items

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

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



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

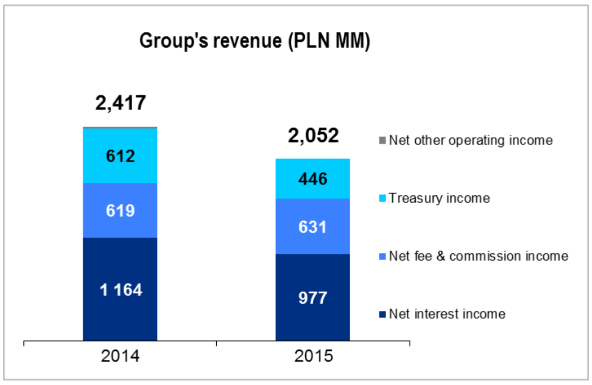
- Operating income (including the result on interest and commissions, dividend income, the result on trade financial instruments and revaluation, the result on investment debt securities, the result on investment equity instruments, the result on hedge accounting and the result on other operating income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

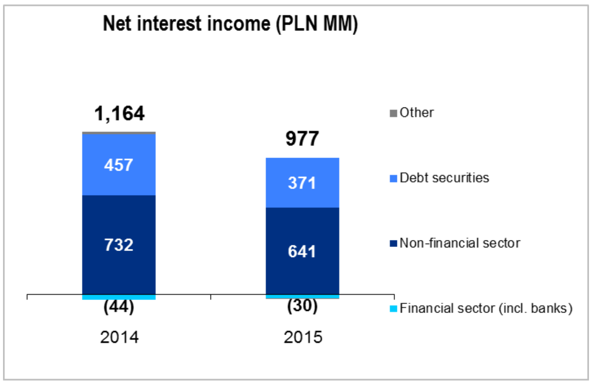
3.1.1 Revenue

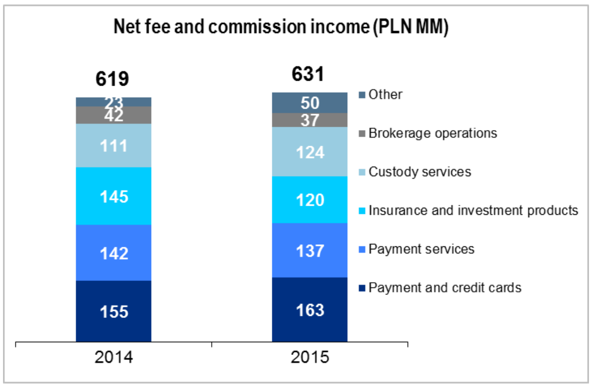
In 2015, operating income was PLN 2,051.7 million compared to PLN 2,417.4 million in the previous year, an increase of PLN 365.7 million, i.e. 15.1%.

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

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





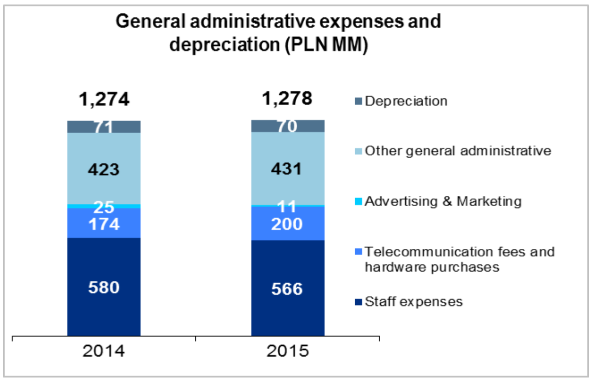


3.1.2 Expenses

General expenses & depreciation

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

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



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

Net impairment and provisions

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

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

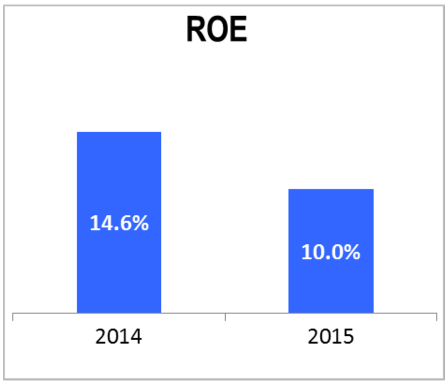
3.1.4 *Ratio analysis*

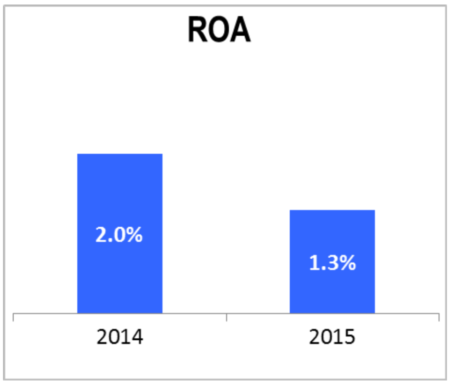
The Group's efficiency ratios

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

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

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





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

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

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

3.2 Consolidated statement of financial position

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

Consolidated statement of financial position

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

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

3.2.1 Assets

Gross receivables from clients

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

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

Net receivables from clients

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

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

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

Debt securities portfolio

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

3.2.2 *Liabilities*

Liabilities towards customers

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

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

3.2.3 *Source and use of funds*

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

3.3 Equity and the capital adequacy ratio

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

Equity*

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

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

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

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

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

Capital adequacy ratio*

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

** Capital Adequacy Ratio calculated according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.*

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

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

1. Lending and other risk exposures

1.1 Lending

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

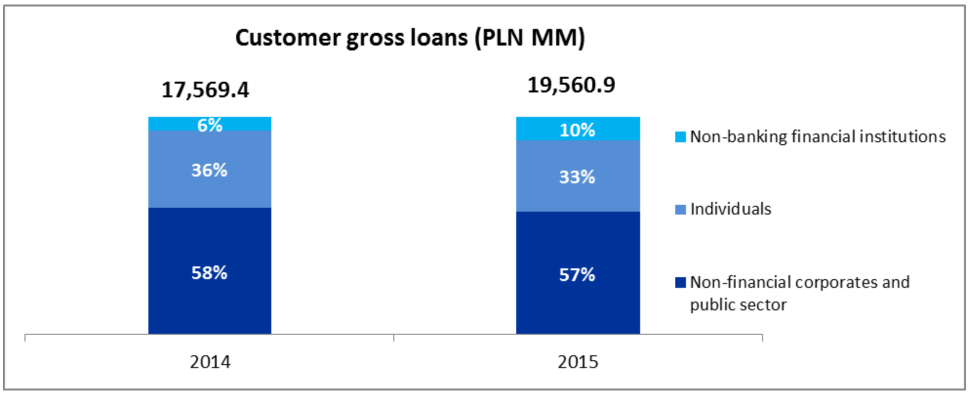
In 2015 the Group focused its credit risk management activities on:

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

Gross loans to customers

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

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



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

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

Concentration of exposure to customers

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

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

** Net of equity and other securities exposures*

Concentration of exposure in individual industries *

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

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

1.2 Loan portfolio quality

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

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

PLN '000	31.12.2015	31.12.2014	Change	
			PLN '000	%
With not recognized credit losses, including:	18,861,253	16,630,827	2,230,426	13.4%
non-financial sector entities	16,827,402	15,609,377	1,218,025	7.8%
institutional clients*	10,729,522	9,811,191	918,331	9.4%
individual clients	6,097,880	5,798,186	299,694	5.2%
With recognized credit losses, including:	625,591	847,540	(221,949)	(26.2%)
non-financial sector entities	608,457	828,544	(220,087)	(26.6%)
institutional clients*	269,892	346,564	(76,672)	(22.1%)
individual clients	338,565	481,980	(143,415)	(29.8%)
Dues related to matured derivative transactions	74,033	91,011	(16,978)	(18.7%)
Total loans to customers, gross, including:	**19,560,877**	**17,569,378**	**1 991,499**	**11.3%**
non-financial sector entities	17,435,859	16,437,921	997,938	6.1%
institutional clients*	10,999,414	10,157,755	841,659	8.3%
individual clients	6,436,445	6,280,166	156,279	2.5%
Impairment, including:	**(585,406)**	**(798,896)**	**213,490**	**(26.7%)**
dues related to matured derivative transactions	(67,678)	(81,134)	13,456	(16.6%)
Total loans to customers, net	**18,975,471**	**16,770,482**	**2,204,989**	**13.1%**

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

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

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

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

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

Impairment of the customer loan portfolio

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

1.3 Off-balance-sheet commitments

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

Contingent off-balance sheet liabilities granted

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

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

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

2. External funding

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

Funding from banks

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

Funding from customers

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

3. Interest rates

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

As at 31 December 2015

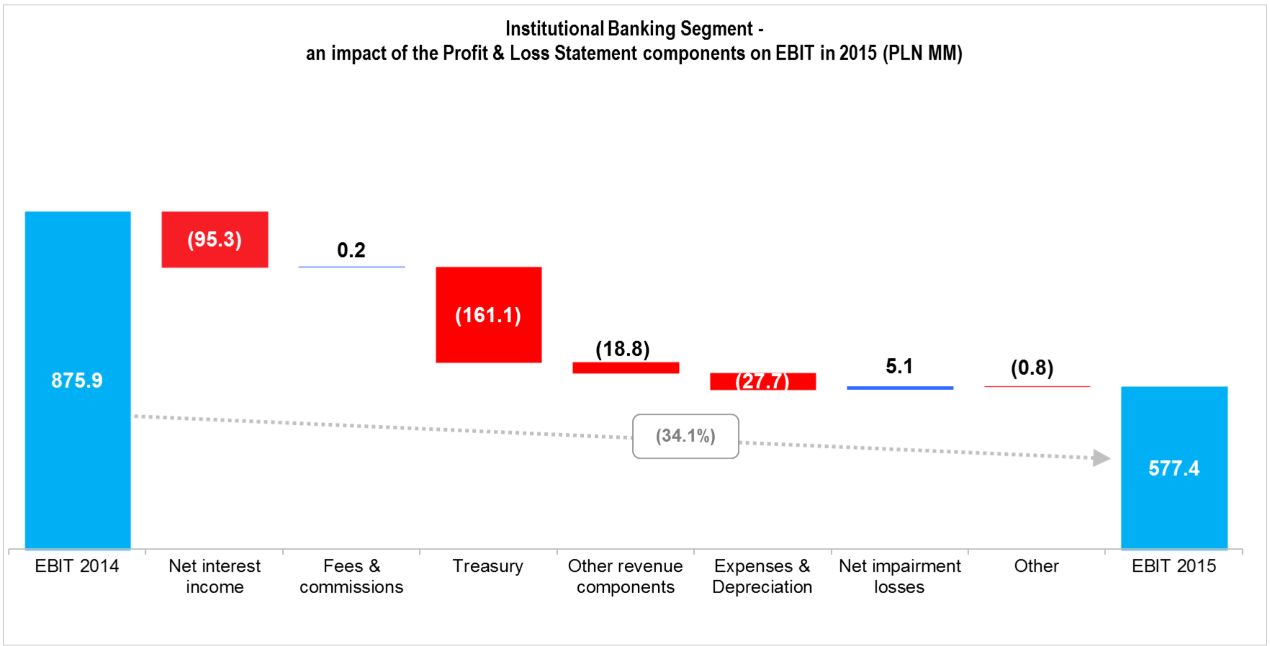
in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	2.92	1.45	1.47	10.71	4.00	-
Debt securities	2.08	0.45	1.30	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	1.42	0.31	0.54	1.11	0.20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

As at 31 December 2014

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

4. Institutional Banking Segment

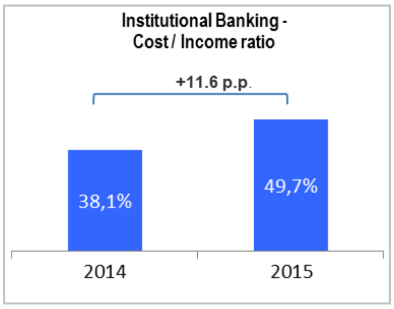
4.1 Summary of segment's results



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

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

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



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

4.2 Institutional Bank

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

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

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

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

Assets*

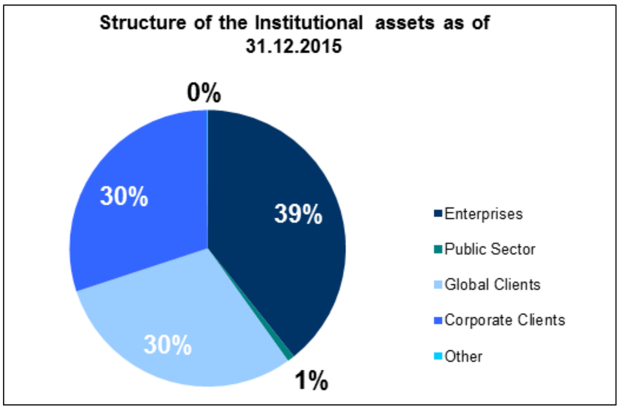
PLN million	31.12.2015	31.12.2014	Change	
			PLN million	%
Enterprises**, including:	4,433	4,357	76	2%
SMEs	1,797	1,769	28	2%
Large enterprises	2,636	2,588	48	2%
Public Sector	95	126	(31)	(25%)
Global Clients	3,370	3,531	(161)	(5%)
Corporate Clients	3,379	2,503	876	35%
Other***	12	68	(56)	(82%)
Total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

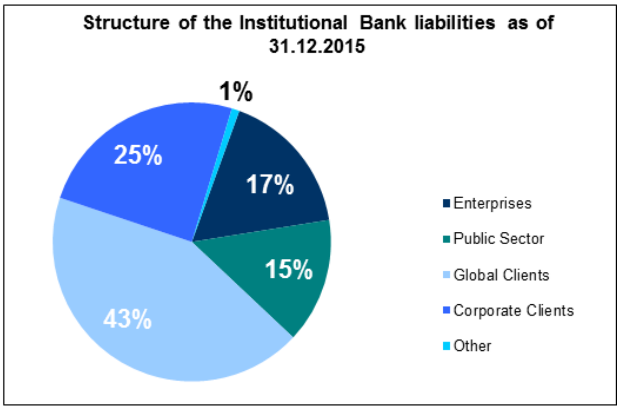
Liabilities

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

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

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





Key transactions and successes of the Institutional Bank in 2015:

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

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

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

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

4.3 Treasury Division Operations

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

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

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

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

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

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

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

4.4 Transaction services

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

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

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

Transactional banking development priorities for 2015 were:

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

Client activation and *share-of-wallet* increase

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

Development and commercialization of the e-banking application

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

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

Trade finance expansion

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

Deposits and current accounts

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

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

Liquidity management products

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

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

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

Electronic banking

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

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

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

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

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

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

Receivables processing: SpeedCollect, Direct Debit and Cash Products

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

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

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

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

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

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

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

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

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

Non-cash payments

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

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

Electronic Money Orders

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

Business cards

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

Prepaid cards

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

EU-oriented advisory services

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

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

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

Trade finance products

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

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

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

The key trade finance transactions in 2015 included:

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

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

4.4.1 Custody services

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

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

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

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

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

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

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

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

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

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

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

4.5 Brokerage Activity

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

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

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

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

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

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

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

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

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

Summary financial data as at 31 December 2015*

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

**pre-audit data*

4.6 Leasing

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

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

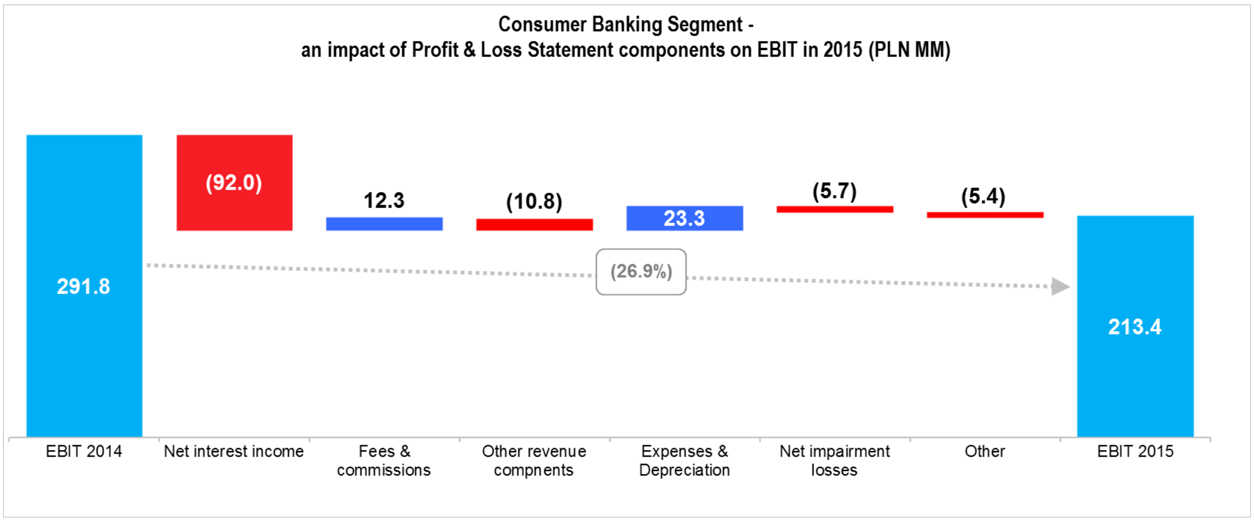
Summary financial data as at 31 December 2015*

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

**pre-audit data*

5. Consumer Banking Segment

5.1 Summary of the segment's results

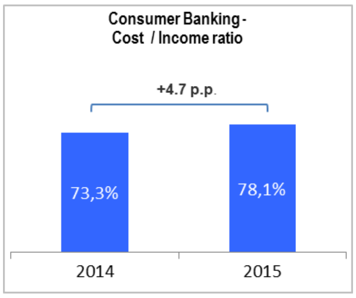


In 2015, the Retail Banking segment recorded a decline in pre-tax profit of PLN 78.4 million, i.e. 26.9%. The pre-tax profit of the Retail Banking segment in 2015 compared to the previous year was driven mainly by the following factors:

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

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

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



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

5.2 Selected business data

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

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

5.3 Key business achievements

Bank accounts

Current accounts

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

Savings accounts

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

Changes in the offering

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

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

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

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

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

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

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

Credit cards

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

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

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

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

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

Credit products

Cash advances and instalment products to credit card account

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

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

Mortgage products

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

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

Investment and insurance products

Investment products

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

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

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

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

6. Development of distribution channels

6.1 Branch network

Construction of Bank Smart Ecosystem

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

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

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

Changes to the network of outlets

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

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

Number of branches (at the end of period)

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

6.2 Internet and telephone banking

Mobile banking

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

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

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

Online Banking

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

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

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

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

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

Social Media

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

7. Changes in IT technologies

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

The following solutions were implemented in 2015:

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

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

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

8. Equity investments

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

8.1 Strategic portfolio

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

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

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

8.2 Divestment portfolio

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

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

Special purpose investment vehicle companies

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

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

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

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

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

9. Awards and honors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.1 Economy

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

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

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

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

1.2 Regulatory and legal risks

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

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

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

- liquidity, solvency and credit risk standards (resolutions of the Polish Financial Supervision Authority);
- risk management at the bank (Banking Law, resolutions of the Polish Financial Supervision Authority);
- calculating and satisfying reserve requirements (NBP Act, Banking Law, resolutions of the Polish Financial Supervision Authority and resolutions of the NBP Management Board);
- regulations concerning taxes and related instruments;
- Act of 7 July 2005 amending the Civil Code and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such loans;
- limits regarding extension of mortgage-secured foreign currency loans, specified in Recommendation S and Recommendation S(II) of the Commission for Banking Supervision;
- Act of 16 February 2007 on protection of competition and consumers;
- Act of 23 August 2007 on counteracting unfair market practices;
- Act of 16 November 2000 on combating money laundering and terrorist financing;
- Act of 29 July 2001 on consumer credit;
- Act of 12 May 2011 on consumer credit;
- Act of 19 August 2011 on payment services;
- Act of 30 May 2014 on consumer rights;
- Act of 29 July 2005 on trading in financial instruments;
- Act of 27 May 2004 on investment funds;
- Act of 28 August 1997 on organization and operation of pension funds;
- Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into organized trading and on public companies;
- Act of 6 December 2013 amending certain Acts in connection with the determination of the terms of payment of pensions from the resources of open pension funds;
- Act of 14 December 1994 on the Bank Guarantee Fund (BFG);
- Act of 28 February 2003 – Bankruptcy Law, including so-called consumer bankruptcy;
- Act of 15 May 2015 – Restructuring Law;
- Act of 5 August 2015 on the consideration of complaints by entities of the financial market and the Financial Ombudsman; Act of 5 August 2015 on the macro-prudential oversight of the financial system and crisis management in the financial system;
- Act of 15 January 2015 on bonds;
- Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 and European Commission implementing regulations (the so called "EMIR").
- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 together with implementing legislations;
- Recommendation A of the Polish Financial Supervision Authority on management of risks related to derivative transactions conducted by banks;
- Recommendation T of the Polish Financial Supervision Authority on good management practices concerning the risk of retail credit exposure;
- Recommendation I of the Polish Financial Supervision Authority on management of foreign exchange risk in banks and rules of performing transactions subject to foreign exchange risk by banks;
- Recommendation M of the Polish Financial Supervision Authority on the management of operational risk at banks;
- Recommendation U on good practices in bancassurance;
- Recommendation D concerning management of IT areas and ICT environment security at banks. The recommendation 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;
- Recommendation P on the management of banks' financial liquidity risk;
- Recommendation W on the management of banks' risk of models;
- Guidelines of the Polish Financial Supervision Authority of 16 December 2014 on the management of IT and ICT security areas at pension fund management companies, insurance and reinsurance companies, investment fund management companies, entities providing capital market infrastructure, and investment firms. The guidelines are a version of Recommendation D on the management of IT and ICT security areas at banks adapted to the needs of individual sectors. The PFSA expects appropriate measures aimed at implementing the standards set forth in the guidelines to be implemented by the entities subject to supervision no later than by 31 December 2016. These

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

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

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

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

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

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

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

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

1.3 Competition in the banking sector

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

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

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

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

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

2.1 Liquidity risk

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

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

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

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

2.2 Foreign exchange risk

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

2.3 Interest rate risk

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

2.4 Credit risk and counterparty risk

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

2.5 Operational risk

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

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

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

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

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

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

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

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

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

1. General development objectives of the Group

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

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

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

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

One of the strategic objectives of the Group is still to build value of the Bank by improving operational effectiveness and leveraging the market advantage resulting from its strong capital position and high liquidity. The strong position of the Bank is a guarantee of safety for clients which translates into high confidence in the institution, and the continuous improvement of the quality of services and processes allows to build a strong Bank. The further development of new technologies will allow the development and deployment of breakthrough innovations which will strengthen the market position of the Bank. For clients it is essential to effectively benefit from the global profile of Citi Handlowy, enabling them to access services provided by the Bank from any place in the world.

1.1 Institutional banking

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

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

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

1.2 Brokerage activity

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

1.3 Retail banking

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

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

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

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

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

VIII. The Bank's community initiatives and cultural sponsorship

1. Corporate Social Responsibility (CSR)

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

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

1.1 Client relationships – market practice

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

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

Accurate information – advertising ethics

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

Client satisfaction surveys

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

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

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

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

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

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

Complaints

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

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

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

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

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

Data protection and client privacy

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

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

1.2 Workplace practices

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

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

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

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

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

Employee satisfaction surveys

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

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

Workplace diversity

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

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

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

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

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

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

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

Dialogue and freedom of association

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

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

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

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

Each newly hired employee receives the content of the Code of Conduct and is obliged to sign a statement confirming they have read and will comply with them in their daily work.

Employee voluntary work programme

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

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

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

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

1.3 Environmental initiatives

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

Direct environmental impact

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

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

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

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

Employee education

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

Indirect environmental impact

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

Social commitment and community development

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

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

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

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

Citi Handlowy Kronenberg Foundation programmes

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

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

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

- **Bank Handlowy Award** for an outstanding scientific contribution to 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 29 publications were submitted to the 21st edition of the award;

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

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

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

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

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

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

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

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

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

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

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

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

2. Cultural patronage and sponsorship

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

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

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

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

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

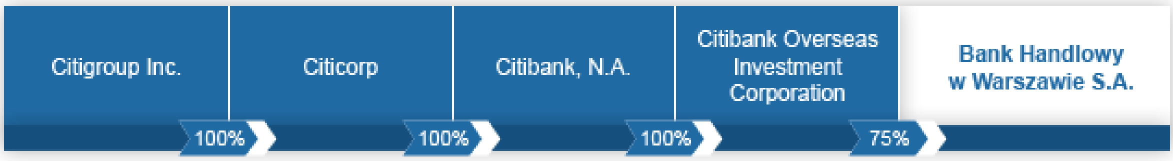
IX. Investor information

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

1.1 Shareholders

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

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



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

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

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

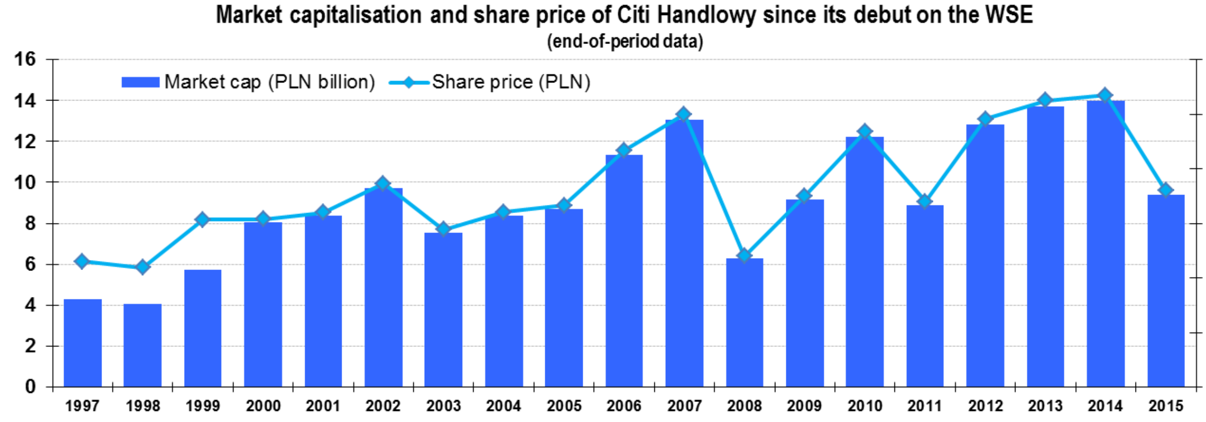
Shareholder	31.12.2015		31.12.2014	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
ING OFE	3,426,448	2.62%	5,540,822	4.24%
Aviva OFE Aviva BZ WBK	2,737,883	2.10%	4,150,289	3.18%
OFE PZU ,,Złota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

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

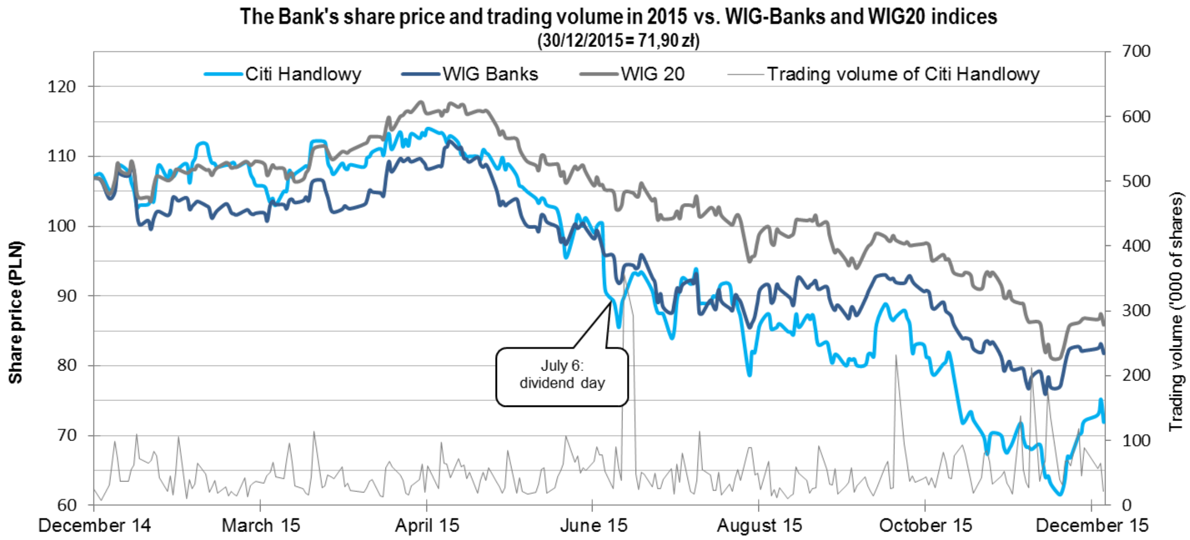
1.2 Performance of the Bank's shares on the WSE

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

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



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



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

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

2. Dividend

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

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

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

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

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

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

3. Rating

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

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

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

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

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

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

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

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

4. Investor relations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Significant shareholdings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Amendments to the Articles of Association

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

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

4) the principles of functioning of the management system, including the internal control system;

5) equity and financial management principles;

6) share privilege or restrictions with respect to the voting right.

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

8.1 General Meeting procedure

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

It is the Company's practice that the General Meeting is held at the registered office of the Company in Warsaw. The ordinary General Meeting is convened by the Management Board of the Bank. It should be held within the first six months after the end of each financial year. The Company's practice is to convene the Ordinary General Meeting no later than in the last week of June, before noon. The Supervisory Board has the right to convene an ordinary General Meeting if the Management Board fails to convene such 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 the General Meeting along with the draft resolutions (and, if a given case does not require passing of a resolution, along with comments of the Management Board) is placed on the Bank's website as of the day of convening such 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 General Meetings imposed by the applicable laws.

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

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

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

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

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

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

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

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

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

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

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

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

General Meetings may be attended by the media.

8.2 Fundamental powers of the General Meeting

The General Meeting should be convened to:

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

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

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

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

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

3) general risk fund;

4) dividend;

5) special purpose funds;

6) other purposes.

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

8.3 Shareholders' rights and their exercise methods

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

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

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

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

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

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

On a shareholder's request, the Management Board is obliged to provide him/her with information on the Company, on 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, not later than within 2 (two) weeks from the date of closing the General Meeting.

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

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

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

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

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

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

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

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

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

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

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

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

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

9.1 Management Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9.2 Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supervisory Board Committees

Standing Committees of the Supervisory Board include 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 of their functioning. The Committee is composed of: Shirish Apte as the Chairman and Stanisław Sołtysiński as the Deputy Chairman, and Igor Chalupec, Mirosław Gryszka, Marc Luet (until 24 June 2014), Dariusz Mioduski, Andrzej Olechowski, Anna Rulkiewicz, Zdenek Turek and Stephen R. Volk and Anil Wadhwani as Committee members.

Audit Committee

The Audit Committee is composed of:

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

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

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

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

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

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

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

At least once every year, the Audit Committee meets:

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

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

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

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

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

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

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

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

Remuneration Committee

The Remuneration Committee is composed of:

1) Andrzej Olechowski – Chairman of the Committee;

2) Shirish Apte – Member of the Committee;

3) Stanisław Sołtysiński –- Member of the Committee.

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

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

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

The powers and responsibilities of the Remuneration Committee include:

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Zdenek Turek – Chairman of the Committee;

2) Igor Chalupec – Deputy Chairman of the Committee;

3) Frank Mannion – Member of the Committee;

4) Dariusz Mioduski – Member of the Committee;

5) Andrzej Olechowski – Member of the Committee;

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

7) Anil Wadhwani – Member of the Committee.

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

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

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

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

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

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

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

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

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

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

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

Minutes are taken from the Committee's meetings.

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

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

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

Three CGP rules are not applied by DMBH:

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

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

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

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

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

1. Information regarding the remuneration policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) In employment since 1 July 2015

(2) In employment to 22 June 2015

(3) In employment to 31 July 2015

(4) In employment to 18 March 2014

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

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

(1) In employment since 19 March 2014

(2) In employment since 20 May 2014

(3) In employment to 18 March 2014

(4) In employment to 19 June 2013

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In terms of 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 case of one of the Management Board Members) following termination of the employment agreement with the Bank and that the Bank will pay relevant compensation to the Management Board Member.

5. Management policy

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

XII. Agreements concluded with the registered audit company

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

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

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

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

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

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

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

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

XIII. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

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

Selection of the auditor authorized to audit the financial statements

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

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

Signatures of Management Board Members

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