2016
ANNUAL REPORT

citi handlowy®

Annual Report 2016

Dear Shareholders and Clients,

I am honored to present to you the annual report summarizing the financial results of the Capital Group of Bank Handlowy w Warszawie S.A. for 2016. Another year has passed by, a year full of market challenges, many of which we managed to turn into accomplishments. As a financial institution deriving from the tradition of the oldest commercial bank in Poland, we have uninterruptedly supported the Polish economy, remaining a trustworthy partner for our customers, offering financial services facilitating their expansion. The credit for our achievements last year is largely due to the qualified and talented staff with whom I have the pleasure to work.

Sławomir S. Sikora
President of the Management Board

The macroeconomic environment was difficult. Poland witnessed a slow-down of economic growth, reaching just 2.8 percent, down from 3.9 percent in 2015, mainly attributable to a decline in investments. Weaker investment activity was, to a certain extent, connected with a lower inflow of EU funds and growing uncertainty related to the future conditions of conducting business. At the same time, thanks to a good situation on the labor market, as well as payouts under the Polish government's 500+ child benefit scheme, private consumption rose by 3.6 percent. The introduction of the tax on assets of certain financial institutions resulted in higher costs of banks' operations in Poland.

An important event of 2016 was the S&P agency downgrading the long-term rating for Poland from A- to BBB+ in January. This decision led to a visible increase in bond yields and the weakening of the Polish zloty, increasing volatility on financial markets. What is more, in the domestic interest rate market, after several years of cuts and reaching record low levels, the trend reversed. The increase in bond yields was due to an inflation rebound in Poland and other European countries, as well as the outflow of portfolio investments from emerging markets, which took place, among other things, in response to the expectations of interest rate hikes by the US Federal Reserve (the Fed). The market situation and companies' eagerness to invest were significantly determined by a considerable increase in uncertainty as to the situation in the world's biggest economies after the referendum on Brexit and the presidential elections in the US.

In such a demanding market context, **the Group reported a consolidated net profit of PLN 602 million: ROTE at 12.0 percent and ROA at 132 bps vs. 7.9 percent and 83 bps.** respectively in the banking sector overall). We remain one of the most stable and strongest banks in Poland.

Tier 1 ratio for Citi Handlowy amounted to 17.4 percent (vs. 15.9 percent for the entire sector). Thus, **we meet the general criteria announced by the Polish Financial Supervision Authority (KNF) at the beginning of December 2016, allowing us to pay a dividend, in line with our strategy.** That makes us a reliable partner for our shareholders, customers and employees.

Group consolidated net profit
602
mln zł

ROTE
12%

ROA
132
bps

Tier 1 ratio for Citi Handlowy
17,4%

Loans
more than 7 PLN billion
over 400 new loans

Our customer business has developed favorably. **Citi Handlowy remains the first choice bank for international companies operating in Poland.** In the Corporate Banking segment, we owe our growth to both a larger number of clients and a broader scope of cooperation. In accordance with the declaration announced a year ago, our loan activity for companies grew faster than in the banking sector overall, by more than 9 percent. **We financially supported our clients with more than PLN 7 billion, by originating over 400 new loans.** In this area we see the source of our further growth.

The Bank has been consistently promoting Poland's market and actively contributing to the implementation of the national debt issuance policy. **The Bank's special achievement in terms of financing customers from the Corporate Banking segment was the role of co-provider in two benchmark issues of EBI bonds:** 5-year bonds with a face value of PLN 1.75 billion were successfully issued in April 2016, while 10-year bonds with a face value of PLN 1.1 billion were issued in September 2016. In January 2016, **the Bank took the first place in a competition organized by the Ministry of Finance to select Treasury Securities Dealers (DSPW) for 2016.** This distinction, presented to us for the fourth time , is a confirmation of our position of best bank in this market segment.

Citi Handlowy no 1 in a competition organized by the Ministry of Finance to select Treasury Securities Dealers

In May 2016, **Citi Handlowy received two prizes granted by BondSpot S.A.** For another year in a row, the Bank was distinguished for having the biggest turnover in the Treasury BondSpot Poland market, and for gaining the position of market making leader at Treasury BondSpot Poland in 2015. Citi Handlowy also maintained **its position as the best bank on the custodian institutions market in Poland, with a 40 percent market share.**

The Group is continuously focused on innovation and safety. **CitiFX Pulse is still the No. 1 FX online platform,** and in 2016 it was enriched with a new feature – Citi Handlowy integrated the SEPA direct debit with the platform. This solution allows companies carrying out cyclical settlements with contractors from the euro zone associated with imports, logistics and transport, administrative charges, local taxes and others, to entirely automate payments and limit the risk of delays. Another noteworthy innovation on the corporate side is **the CitiMobilePass application, which is an easy, quick and safe manner to authorize operations executed in the CitiDirect transaction service.** After less than two months since its launch, over 40 percent of customers with MobilePass are actively using it.

With regard to the area of retail banking, **Citi Handlowy has been developing its Smart Banking Ecosystem, which it started to implement as the first bank on the market in response to the ever-changing needs of its customers and the evolution of technology. In November 2016, Citi Handlowy launched mobile sale and service outlets, called Mini Smarts.** It is a format that literally "follows" customers, taking advantage of the short-term sales potential of various locations. Having only 12 square meters, MiniSmart branches offer all functionalities. MiniSmart branches are fully mobile, while their functionalities and construction make it possible to relocate a branch to any other place in Poland within just two or three days.

Online sales: 47% YOY credit card

Online sales: 147% YOY loans and installment products

In 2016, the role of online sales increased: credit card sales grew by 47 percent compared to 2015, while online sales of loans and installment products jumped by 147 percent year-on-year.

The results of Citi Handlowy's Universal Bankers (currently more than 100) look equally good, where credit card sales recorded a 121 percent increase year-on-year. Credit cards acquisition also grew in all distribution channels – by as much as 36 percent over 2015. Such a considerable increase was an effect of the Bank's intense activities in the scope of acquisition, by making the credit card offer more attractive. Citi Handlowy also took second place in the black credit card ranking prepared by the Forbes magazine.

At the end of 2016, Citi Handlowy was at the final stage of implementing a new release of the Citibank® Online transaction service platform for retail customers. The project was developed in close co-operation with the Bank's customers (including through focus groups and testing). The platform features a modern and intuitional design, the RWD (Responsive Web Design) technology, allowing customers to use it on mobile devices, and a number of other innovative functionalities that were made available to customers in the first quarter of 2017.

Forbes also once again recognized Citi Handlowy's private banking, which obtained the highest score in a prestigious ranking prepared by the magazine. Given the growth rate of the private banking segment, in December 2015 Citi Handlowy as the first bank in the market, introduced a Citigold Private Client offering for clients with portfolios of PLN 3 million.

As compared to 2015, the Bank recorded an increase in the number of customers in the Citigold Private Client segment by 38 percent and in the Citigold segment by 17 percent.

Citigold Private Client 38% YOY

Citigold clients 17% YOY

The very positive opinions of Citi Handlowy's customers are confirmed in NPS (Net Promoter Score) surveys, where the score of the Bank's online banking system (Citibank® Online) is at 30 percent, and the score of Citiphone is at 56 percent. Both indices increased by 10 pp year-on-year.

In 2016, Dom Maklerski Citi Handlowy (DMBH) maintained its leading market position. Its share in the shares trading in the Main Market reached 10.3 percent, which was the best result on the market.

Dom Maklerski Citi Handlowy no 1 on market

At the end of 2016, DMBH carried out the function of market maker for 64 companies (20 from WIG20 and 38 from mWIG40), which contributed to nearly 19 percent of shares quoted on the primary market. In addition, DMBH acted as joint demand bookrunner in the process of Pekao S.A. selling shares in UniCredit S.p.A. (with a transaction value reaching PLN 3.3 billion), and as intermediary in the process of inviting sale offers of the second and third tranche shares within the frames of Stalprodukt S.A.'s buyback program (transactions with a total value of circa PLN 180 million). It also intermediated in the call and forced buyout of shares in DTP for PRAGroup Polska sp. z o.o. (PLN 174.5 million).

What constitutes our strength is our qualified and talented employees. It is them who—thanks to their engagement, experience and talents—make this a unique organization. That is why we take into account their opinion, which we ask them for every year in an internal survey called "Głos Pracownika" (Voice of the Employee). Last year, as many as 88 percent of respondents positively assessed the ethical culture of our organization, while 81 percent believed that it supported diversity. We take care of our employees by creating the best working conditions for them, by noticing talent and nurturing their development at all levels of the organization, and by offering possibilities of professional development within the global Citi structures. Because of all of this, we can boast the opinion of the employer most eagerly chosen by potential employees (Employer of Choice).

We are a socially responsible company. For the tenth time, since the first edition, we have been uninterruptedly included in the prestigious RESPECT Index.

The list includes companies listed on the WSE that operate in line with the highest management standards in the scope of corporate governance, information governance and relations with investors, also taking into account environmental, social and economic factors.

Since 2014, Citi Handlowy has also been a member of the prestigious MSCI Global Sustainability Index, which is an index of companies with high standards in the areas of corporate governance, environmental protection and corporate social responsibility.

Our social responsibility commitment is manifested through Poland's largest nation-wide and local educational programs and social projects, which we carry out through the Kronenberg Foundation at Citi Handlowy, which in 2016 celebrated its 20th anniversary, and with the support of the Citi Foundation.

These activities develop local entrepreneurship and support the financial education of young people in a real manner. Under the Employee Volunteering Program, coordinated by the Kronenberg Foundation, our volunteers managed to help more than 33,000 people in need, executing a record-breaking number of 256 projects.

This is one of the largest and best perceived volunteering programs in Poland. As a leader and innovator, not only in the field of banking, but also in the area of CSR, we take into account the dynamics of changes in social and technological conditions, promoting the initiatives of the start-up environment, as well as young people developing their own business ideas and women who intend to pursue their own businesses.

While presenting to you the annual report for 2016, I would like to again emphasize the special contribution of our employees to the results and achievements of the Capital Group of Bank Handlowy w Warszawie S.A., as well as to offer thanks for the engagement and trust with which we are favored by our customers and shareholders. I would also like to express my acknowledgement to the members of the Supervisory Board for supporting the strategy carried out by the Group – on my behalf and on behalf of the entire Management Board.

Z poważaniem,

Sławomir S. Sikora
President of the Management Board

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Independent Registered Auditor's Report

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Independent Registered Auditor's Report

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

Report on the consolidated financial statements

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

Management and Supervisory Board's Responsibility

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

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

Auditor's Responsibility

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

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

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

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

F: +48 (22) 742 4040, www.pwc.com

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

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

Opinion

In our opinion, the accompanying consolidated financial statements:

a) give a true and fair view of the Group's financial position as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January to 31 December 2016, in accordance with the International Financial Reporting Standards as adopted by the European Union and the applicable accounting policies;

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Report on the Group's operations

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

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

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

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

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

With respect to our audit of the consolidated financial statements,

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

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

Adam Celiński

Key Registered Auditor

No. 90033

Warsaw, 21 March 2017

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Bank Handlowy w Warszawie S.A. Group

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

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

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I. General information about the Group

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

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

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

d. As at 31 December 2016 the Parent Company's share capital amounted to PLN 522,638 thousand and consisted of 130,659,600 ordinary shares, with a nominal value of PLN 4.00 each.

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

Shareholder's name	Number of shares held		Par value of shares held (PLN '000)	Type of shares held	Votes (%)
Citibank Overseas Investment Corporation, USA	97,994,700		391,979	ordinary	75.
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.

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

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

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

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

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

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

II. Information about the audit

a. The audit of the consolidated financial statements as at and for the year from 1 January to 31 December 2016 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Adam Celiński (no. 90033).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 5/VI/2016 of the Supervisory Board of Bank Handlowy w Warszawie S.A. dated 11 March 2016 in accordance with paragraph 18 of the Parent Company's Memorandum of Association.

c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2016, item 1000 as amended).

d. The audit was conducted in accordance with an agreement dated 25 May 2016, in the following periods:

- interim audit from 3 October to 31 December 2016;
- final audit from 2 January to 21 March 2017.

e. An audit was conducted in accordance with International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. The scope of an audit was influenced by an application of materiality. In accordance with these auditing standards, the concept of materiality is applied by the auditor at the planning stage and when conducting the audit as well as to evaluate the effect of misstatements identified and adjusted (if any) on the consolidated financial statements, and to form the opinion in the Independent Registered Auditor's Report.

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

Based on a professional judgement, the certain quantitative thresholds for materiality were determined and documented, including the overall materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of the audit and the nature, timing and extent of the audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Therefore, all statements included in the Independent Registered Auditor's Report, including those related to the other legal and regulatory requirements, have been expressed considering the materiality determined in accordance with those auditing standards and the auditor's judgement.

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

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

	31.12.2016 PLN '000	31.12.2015 PLN '000	Change		Structure	
			PLN '000	(%)	31.12.2016 (%)	31.12.2015 (%)
ASSETS						
Cash and balances with Central Bank	665,755	2,170,237	(1,504,482)	(69.3)	1.5	4.4
Amounts due from banks	587,087	757,103	(170,016)	(22.5)	1.3	1.5
Financial assets held-for-trading	3,781,405	6,987,284	(3,205,879)	(45.9)	8.4	14.1
Hedging derivatives	12,244	1,795	10,449	582.1	-	-
Debt securities available-for-sale	19,072,371	18,351,259	721,112	3.9	42.2	37.1
Equity investments valued at equity method	10,471	7,768	2,703	34.8	-	-
Equity investments available-for-sale	22,842	67,744	(44,902)	(66.3)	0.1	0.1
Amounts due from customers	18,860,053	18,975,471	(115,418)	(0.6)	41.7	38.4
Tangible fixed assets	342,971	354,080	(11,109)	(3.1)	0.8	0.7
Intangible assets	1,350,861	1,371,879	(21,018)	(1.5)	3.0	2.8
Current income tax receivables	13,901	20,673	(6,772)	(32.8)	-	-
Deferred income tax asset	198,383	161,586	36,797	22.8	0.4	0.3
Other assets	289,644	277,985	11,659	4.2	0.6	0.6
Non-current assets held-for-sale	1,928	1,928	-	-	-	-
TOTAL ASSETS	**45,209,916**	**49,506,792**	**(4,296,876)**	**(8.7)**	**100.0**	**100.0**
LIABILITIES						
Amounts due to banks	2,310,742	6,963,561	(4,652,819)	(66.8)	5.1	14.1
Financial liabilities held-for-trading	1,305,614	3,247,523	(1,941,909)	(59.8)	2.9	6.6
Hedging derivatives	39,897	112,383	(72,486)	(64.5)	0.1	0.2
Amounts due to customers	33,936,511	31,586,303	2,350,208	7.4	75.0	63.8
Provisions	22,856	23,494	(638)	(2.7)	0.1	-
Other liabilities	803,846	722,872	80,974	11.2	1.8	1.5
TOTAL LIABILITIES	**38,419,466**	**42,656,136**	**(4,236,670)**	**(9.9)**	**85.0**	**86.2**
EQUITY	6,790,450	6,850,656	(60,206)	(0.9)	15.0	13.8
TOTAL LIABILITIES AND EQUITY	**45,209,916**	**49,506,792**	**(4,296,876)**	**(8.7)**	**100.0**	**100.0**

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

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

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

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

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

Selected ratios characterizing the Group's financial position and results

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

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

1. The average balances of balance sheet items were calculated on the basis of the balances of the individual items as at the beginning and the end of the current financial year and the previous financial year.

2. The profit/(loss) on banking activities defined as the profit before tax less general administrative expenses, depreciation expense and net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted.

3. Interest-bearing assets defined as balances with the central bank (excluding cash), amounts due from banks and from customers and investment securities and derivative instruments.

4. Ratio calculated according to the current at a given reporting moment rules as of 31 December 2016 and 31 December 2015 according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

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

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

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

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

- At the end of the financial year, the Group's total assets amounted to PLN 45,209,916 thousand. During the year total assets decreased by PLN 4,296,876 thousand, i.e. by 8.7%.
- At the end of 2016 assets were primarily financed by amounts due to customers. As at 31 December 2016 the amounts due to customers amounted to PLN 33,936,511 thousand and represented 75.0% of total liabilities and equity - an increase compared to the balance as at 31 December 2015 by 11.2 p.p. An increase of amounts due to customers compared to the previous year of PLN 2,350,208 thousand (i.e. 7.4%) resulted mainly from increase of deposits from financial sector entities by PLN 1,314,994 thousand and deposits from non-financial sector by PLN 1,228,472 thousand.
- As at the balance sheet date, amounts due to banks amounted to PLN 2,310,742 thousand, which represented a decrease by PLN 4,652,819 thousand, i.e. by 66.8% compared to the previous year. This change was mainly due to a decrease of term deposits (by PLN 3,957,173 thousand, i.e. by 88.7%) and a decrease of liabilities due to sold securities under repurchase agreements (by PLN 1,411,084 thousand, i.e. 86.9%), Simultaneously, the balance of liabilities on current accounts has increased (by PLN 785,607 thousand, i.e. by 115.3%). The balance of term deposits from related entities has decreased by PLN 3,563,657 thousand, i.e. by 93.8% compared to the end of previous year.
- As at 31 December 2016 total equity amounted to PLN 6,790,450 thousand. A decrease of total equity by PLN 60,206 thousand, i.e. by 0.9% compared to the previous year was mainly due to:
  - payment of dividend by a Parent Company from the profit in the amount of PLN 611,587 thousand;
  - net profit generated by the Group in the amount of PLN 601,580 thousand in the audited financial year;
  - a decrease of revaluation reserve due to valuation of financial assets available-for- sale (net) by PLN 51,230 thousand.
- As at 31 December 2016, the net balance of amounts due from customers amounted to PLN 18,860,053 thousand, which was a decrease by PLN 115,418 thousand, i.e. by 0.6% compared to the previous year. Bank receivables represented 99.7% of the net balance of amounts due from customers. As at the end of 2016, the gross loan portfolio amounted to PLN 19,423,474 thousand and comprised mainly of loans and advances due from non-financial sector entities in the gross amount of PLN 16,051,239 thousand, unlisted debt securities from financial sector entities in the gross amount of PLN 1,199,671 thousand (securitization securities) and purchased receivables from non-financial sector entities in the gross amount of PLN 1,116,054 thousand. A decrease of amounts due from customers was mainly due to a drop of receivables from financial sector entities subject to securities sale and repurchase agreements by the gross amount of PLN 1,356,247 thousand (no balance at the end of 2016).
- The balance of impairment allowances for amounts due from customers decreased by PLN 21,985 thousand, i.e. by 3.8% and as at 31 December 2016 amounted to PLN 563,421 thousand (impairment allowances for amounts due from Bank consitituted 99.3% of total balance). This drop resulted mainly from a decrease in the impairment of individual loss (a decrease of PLN 40,727 thousand, i.e. by 13.7%). As at 31 December 2016, the share of impaired loans and advances in the total balance of loans and advances decreased by 0.3 p.p. and amounted to 3.3%. The coverage ratio of impairment allowances for impaired loans and advances amounted to 76.4% and increased by 2.0 p.p. compared to the end of 2015.
- As at the end of the audited year, amounts due from banks amounted to PLN 587,087 thousand and decreased by PLN 170,016 thousand, i.e. by 22.5% mainly due to a decrease of amounts in current accounts (a decrease by the gross amount of PLN 175,546 thousand) and a decrease in the balance of deposits pledged as collateral of derivative instruments and stock market transactions (a decrease by the gross amount of PLN 127,472 thousand), with a simultaneous increase in the balance of receivables due to purchased securities with a repurchase agreement (a growth by the gross amount of PLN 203,117 thousand).
- As at 31 December 2016, debt securities available-for-sale amounted to PLN 19,072,371 thousand and represented 42.2% of total assets. A growth of this balance by PLN 721,112 thousand, i.e. 3.9% was due to the purchase of portfolio of bills issued by the National Bank of Poland in the amount of PLN 2,239,715 thousand. At the same time, portfolio of banks issued by other banks decreased by PLN 1,442,623 thousand.
- As at 31 December 2016, financial assets held-for-trading amounted to PLN 3,781,405 thousand and comprised mainly Treasury bonds in the amount of PLN 2,546,247 thousand and derivative financial instruments in the amount of PLN 1,167,134 thousand. The balance of the Treasury bonds decreased by PLN 1,733,393 thousand, i.e. by 40.5% and derivative instruments valuation decreased by PLN 1,099,998 thousand, i.e. by 48.5%.
- The balance of the valuation of derivatives as at 31 December 2016 decreased on the assets side (financial assets held-for-trading) as well as the liabilities side (financial liabilities held-for-trading) primarily due to drop in the value and quantity of open (at the balance sheet date) interest rate swaps (a decrease of PLN 1,057,803 thousand, i.e. by 69.0% on the assets side and of PLN 1,105,383 thousand, i.e. by 67.5% on the liabilities side). The drop in the value and quantity of interest rate swaps was mainly due to fact that the Bank runs a compression of derivative transaction portfolios' periodically according to recommendation of "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation).
- In the first half of 2016 the Management Board of the Bank has received the information regarding final allocation of settlement transactions of the Visa Europe Limited takeover by Visa Inc. As at 31 December 2016 the net amount of preference shares after discount amounted to PLN 18,965 thousand and was presented as the amount of financial assets classified to the Level III of fair value.
- As at 31 December 2016 revaluation reserve had negative value and amounted to PLN 214,843 thousand (at the end of 2015 revaluation reserve had also negative value and amounted to PLN 163,613 thousand). A decrease in revaluation reserve was mainly due to a change in revaluation of financial assets available-for-sale.
- The profit before tax for the audited year amounted to PLN 764,328 thousand and was lower than the profit before tax for 2015 by PLN 26,447 thousand, i.e. by 3.3%. In the amount of Group's profit, profit before tax of the Bank constituted 95.8% of the amount, i.e. PLN 732,135 thousand. The profit before tax comprised mainly of: net interest income of PLN 1,003,571 thousand, net fee and commission income of PLN 561,229 thousand and net income on trading financial instruments and revaluation of PLN 347,197 thousand, reduced mainly by general administrative expenses of PLN 1,132,301 thousand. In 2016 tax on some financial institutions amounted to PLN 69,311 thousand (no charge in 2015).

- Net interest income amounted to PLN 1,003,571 thousand and increased by PLN 26,971 thousand, i.e. by 2.8% compared to the previous year. A growth of the net interest income was due to an increase of interest and similar income by PLN 26,191 thousand. At the same time, interest expense and similar charges decreased by PLN 780 thousand compared to the previous year. The main changes in interest and similar income has occurred in interest income due to amounts from customers (an increase by PLN 59,032 thousand, i.e. by 7.6%) and income due to debt securities held-for-trading (a decrease by PLN 25,265 thousand, i.e. 34.4%).
- Net fee and commission income amounted to PLN 561,229 thousand in the audited year and was PLN 70,121 thousand, i.e. 11.1% lower compared to the previous year. This drop was mainly due to a decrease of fee and commission income by PLN 70,087 thousand, which was mainly a result of a decrease of income from insurance and investment products (agency) by PLN 40,092 thousand and income from payment and credit cards by PLN 29,089 thousand. At the same time, fee and commission expense increased by PLN 34 thousand.
- General administrative expenses amounted to PLN 1,132,301 thousand in the audited year (including administrative expenses which amounted to PLN 579,583 thousand and staff expenses which amounted to PLN 552,718 thousand) and decreased by PLN 75,574 thousand, i.e. by 6.3% compared to the previous year. A decrease of the balance of discussed position was mainly due to a decrease of Bank Guarantee Funds costs by PLN 55,864 thousand. Staff expense decreased by PLN 13,045 thousand (i.e. by 2.3%).
- Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted were negative and amounted to PLN 45,768 thousand (in 2015 they were positive and amounted to PLN 17,202 thousand).
- As a result, in the audited year the Group generated a net profit of PLN 601,580 thousand, which was lower by PLN 24,839 thousand, i.e. by 4.0% compared to the previous year.

IV. The independent registered auditor's statements

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

b. The scope of the audit was not limited.

c. The consolidation of equity items were carried out properly in all material respects.

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

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

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

g. The consolidated financial statements of the Group for the year from 1 January to 31 December 2015 were approved by Resolution No. 5/2016 passed by the General Shareholders' Meeting of the Parent Company on 21 June 2016 and filed with the National Court Register in Warsaw on 27 June 2016.

h. During the audit performed we have not identified any significant instances of Bank's non-compliance with banking regulatory norms during the period from 1 January 2016 to the day of issuance of this report. As at 31 December 2016, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolutions of Polish Financial Supervisory Authority and the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, included banking regulatory norms in relation, among others, to the following:
   - concentration of credit risk,
   - concentration of investments in shares,
   - classification of loans and guarantees to risk groups and creation of provisions for the risk associated with activities of banks,
   - liquidity measures,
   - level of obligatory reserve,
   - capital adequacy.

i. As at the balance sheet date the total capital ratio (TCR) amounted to 17.44% and was correctly determined in accordance with CRR. This statement is based on recalculation of the quotient of own funds amounting PLN 4,796,869 thousand divided by risk weighted assets amounting to PLN 27,499,023 thousand as per COREP reporting prepared by the Bank as at the balance sheet date.

j. The notes to the consolidated financial statements, which include the introduction and additional notes and explanations present all the significant information in accordance with IFRS as adopted by the European Union.

k. The information in the Report on Group's operations for the year from 1 January to 31 December 2016 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a member state (Journal of Laws of 2014, item 133 as amended) and is consistent with that presented in the consolidated financial statements.

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

V. Final information

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

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

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

Adam Celiński

Group Registered Auditor, Key Registered Auditor

No. 90033

Warsaw, 21 March 2017

Selected financial data

March 2017

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2016	2015	2016	2015
Interest income	1,258,604	1,232,413	287,635	294,497
Fee and commission income	639,348	709,435	146,113	169,527
Profit before tax	764,328	790,775	174,676	188,964
Net profit	601,580	626,419	137,482	149,689
Total comprehensive income	551,381	410,813	126,010	98,168
Increase/decrease of net cash	(1,681,470)	621,437	(384,275)	148,499
Total assets	45,209,916	49,506,792	10,219,240	11,617,222
Amounts due to banks	2,310,742	6,963,561	522,320	1,634,063
Amounts due to customers	33,936,511	31,586,303	7,671,002	7,412,015
Shareholders' equity	6,790,450	6,850,656	1,534,912	1,607,569
Share capital	522,638	522,638	118,137	122,642
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	51.97	52.43	11.75	12.30
Total capital adequacy ratio (in %)	17.4	17.1	17.4	17.1
Earnings per share (PLN/EUR)	4.60	4.79	1.05	1.15
Diluted net earnings per share (PLN/EUR)	4.60	4.79	1.05	1.15
Declared or paid dividends per share (PLN/EUR)*	4.53	4.68	1.02	1.10

** The presented ratios are related to declared dividend from the appropriation of the 2016 profit and dividend paid in 2016 from the appropriation of the 2015 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 2016 - PLN 4.4240 (as at 31 December 2015: PLN 4.2615); 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 2016 – PLN 4.3757 (in 2015: PLN 4.1848).*

The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the Financial Year Ended 31 December 2016

March 2017

Contents

Consolidated income statement

For the period PLN'000	Note	2016	2015
Interest and similar income	4	1,258,604	1,232,413
Interest expense and similar charges	4	(255,033)	(255,813)
Net interest income	**4**	**1,003,571**	**976,600**
Fee and commission income	5	639,348	709,435
Fee and commission expense	5	(78,119)	(78,085)
Net fee and commission income	**5**	**561,229**	**631,350**
Dividend income	**6**	**8,050**	**7,382**
Net income on trading financial instruments and revaluation	**7**	**347,197**	**293,118**
Net gain on debt investment securities available-for-sale		**44,746**	**145,246**
Net gain on capital investment instruments available-for-sale		**95,913**	**2,232**
Net gain on hedge accounting	**8**	**9,553**	**7,949**
Other operating income	9	40,134	40,139
Other operating expenses	9	(28,929)	(52,309)
Net other operating income	**9**	**11,205**	**(12,170)**
General administrative expenses	10	(1,132,301)	(1,207,875)
Depreciation expense	11	(69,922)	(70,422)
Profit/loss on sale of other assets	12	116	102
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	13	(45,768)	17,202
Operating profit		833,589	790,714
Share in net profits of entities valued at equity method		**50**	**61**
Tax on some financial institutions		**(69,311)**	**-**
Profit before tax		**764,328**	**790,775**
Income tax expense	**14**	**(162,748)**	**(164,356)**
Net profit		**601,580**	**626,419**
Including:			
Net profit attributable to the Bank's shareholders		601,580	626,419
Weighted average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	4.60	4.79
Diluted net earnings per share (PLN)	**15**	**4.60**	**4.79**

Explanatory notes on pages 29-96 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

For the period (PLN'000)	Note	2016	2015
Net profit		**601,580**	**626,419**
Other comprehensive income, that might be subsequrently reclassified to profit or loss:			
Net valuation of financial assets available-for-sale	16	(51,230)	(216,486)
Foreign exchange differences		753	(6)
Other comprehensive income, that might not be subsequrently reclassified to profit or loss:			
Net actuarial profits on specific services program valuation	16	278	886
Other comprehensive income after tax		**(50,199)**	**(215,606)**
Total comprehensive income for the period		**551,381**	**410,813**
Including:			
Comprehensive income attributable to the Bank's shareholders		551,381	410,813

Explanatory notes on pages 29-96 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

As at (PLN'000)	Note	31.12.2016	31.12.2015
ASSETS			
Cash and balances with the Central Bank	17	665,755	2,170,237
Amounts due from banks	18	587,087	757,103
Financial assets held-for-trading	19	3,781,405	6,987,284
Hedging derivatives	20	12,244	1,795
Debt securities available-for-sale	21	19,072,371	18,351,259
Equity investments valued at equity method	22	10,471	7,768
Equity investments available-for-sale	23	22,842	67,744
Amounts due from customers	24	18,860,053	18,975,471
Tangible fixed assets	25	342,971	354,080
Intangible assets	26	1,350,861	1,371,879
Current income tax receivables		13,901	20,673
Deferred income tax asset	28	198,383	161,586
Other assets	29	289,644	277,985
Non-current assets held-for-sale		1,928	1,928
Total assets		**45,209,916**	**49,506,792**
LIABILITIES			
Amounts due to banks	30	2,310,742	6,963,561
Financial liabilities held-for-trading	19	1,305,614	3,247,523
Hedging derivatives	20	39,897	112,383
Amounts due to customers	31	33,936,511	31,586,303
Provisions	32	22,856	23,494
Other liabilities	33	803,846	722,872
Total liabilities		**38,419,466**	**42,656,136**
EQUITY			
Share capital	35	522,638	522,638
Supplementary capital	35	3,003,082	3,001,525
Revaluation reserve	35	(214,843)	(163,613)
Other reserves	35	2,885,044	2,869,509
Retained earnings		594,529	620,597
Total equity		**6,790,450**	**6,850,656**
Total liabilities and equity		**45,209,916**	**49,506,792**

Explanatory notes on pages 29-96 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 2016	**522,638**	**3,001,525**	**(163,613)**	**2,869,509**	**620,597**	**-**	**6,850,656**
Total comprehensive income including:	-	-	(51,230)	1,031	601,580	-	551,381
net profit	-	-	-	-	601,580	-	601,580
exchange rate differences from foreign units' conversion	-	-	-	753	-	-	753
valuation of financial assets available-for-sale (net)	-	-	(51,230)	-	-	-	(51,230)
net actuarial profits on specific services program valuation	-	-	-	278	-	-	278
Dividends paid	-	-	-	-	(611,587)	-	(611,587)
Transfer to capital	-	1,557	-	14,504	(16,061)	-	-
As at 31 December 2016	**522,638**	**3,003,082**	**(214,843)**	**2,885,044**	**594,529**	**-**	**6,790,450**

Note: 16, 35

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

Explanatory notes on pages 29-96 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

For the period	2016	2015
PLN'000		
A. Cash flows from operating activities		
I. Net profit	**601,580**	**626,419**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(2,624,803)**	**228,647**
Current and deferred income tax recognized in income statement	162,748	164,356
Share in net profits/losses of entities valued at equity method	(50)	(61)
Depreciation expense	69,922	70,422
Net impairment due to financial assets value loss	49,005	(14,416)
Net provisions (recoveries)	8,426	13,911
Net interest income	(1,003,571)	(976,600)
Profit/loss on sale of investments	(86)	(77)
Net unrealized exchange differences	1,813	(14,533)
Other adjustments	(12,102)	7,110
Cash flows from operating income before changes in operating assets and liabilities	**(723,895)**	**(749,888)**
Change in operating assets (excl. cash and cash equivalents)	**2,267,213**	**614,873**
Change in amounts due from banks	(6,145)	1,279,141
Change in amounts due from customers	75,417	(2,187,882)
Change in debt securities available-for-sale	(932,036)	(4,285,478)
Change in equity investments available-for-sale	656	3,502
Change in financial assets held-for-trading	3,147,247	5,696,941
Change in assets hedge derivatives	(10,449)	(1,795)
Change in other assets	(7,477)	110,444
Change in operating liabilities (excl. cash and cash equivalents)	**(4,168,121)**	**363,662**
Change in amounts due to banks	(4,577,923)	1,992,079
Change in amounts due to customers	2,349,347	1,956,310
Change in liabilities held-for-trading	(1,941,909)	(3,523,399)
Change in amounts due to hedging derivatives	(72,486)	112,383
Change in other liabilities	74,850	(173,711)
Interest received	1,517,624	1,308,427
Interest paid	**(258,049)**	**(255,530)**
Income tax paid	**(187,564)**	**(128,577)**
III. Net cash flows from operating activities	**(951,212)**	**1,779,386**
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(28,951)	(34,502)
Disposal of tangible fixed assets	1,358	6,259
Purchase of intangible assets	(15,441)	(20,873)
Disposal of fixed assets available-for-sale	73	250
Other investing inflows	57	58
Net cash flows from investing activities	**(42,904)**	**(48,808)**
C. Cash flows from financing activities		
Dividends paid	(611,587)	(970,917)
Expenditure on the acquisition of own shares	(2,711)	-
Inflows due to long-term loans from financial sector entities	21,873	56,461
Repayment of long-term loans from financial sector entities	(99,610)	(202,379)
Net cash flows from financing activities	**(692,035)**	**(1,116,835)**
D. Exchange rates differences resulting from cash and cash equivalents conversion	**4,681**	**7,694**
E. Net increase/ decrease in cash and cash equivalents	**(1,681,470)**	**621,437**
F. Cash at the beginning of the period	**2,354,352**	**1,732,915**
G. Cash at the end of the period (see Note 44)	**672,882**	**2,354,352**

Explanatory notes on pages 29-96 are an integral part of the annual consolidated financial statements.

Explanatory notes to the consolidated financial statements

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, and 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	
		31.12.2016	31.12.2015
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, 31.12.2016

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	44,921	9,022	35,899	7,772	7,691
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100.00	19,303	447	18,856	421	(55)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	406,650	297,426	109,224	66,034	12,694
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	964	10,913	28	10,885	212	50

** 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	414	44,921	9,022	35,899	7,772	7,691

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2017, which is the entity's balance sheet date.

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	184,632	45,505	139,127	15,187	3,928
HANDLOWY INVESTMENTS S.A. 1/	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	76,470	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	222	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	184,632	45,505	139,127	15,187	3,928

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 29 February 2016, 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 2016, the financial data amounted to 0.02% of the Group's assets (as at 31 December 2015: 0.02%) and 0.01% of the Group's net profit (as at 31 December 2015: 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 21 March 2017. 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 21 March 2017. 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 2016 to 31 December 2016 and for the consolidated statements of financial situation as at 31 December 2016. The comparable financial data are presented 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 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.

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.

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

- IFRS 9 "Financial Instruments" approved by EU's , 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 9 implementation progress is described below).
- IFRS 15 "Revenue from Contracts with Customers" awaiting EU's 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's endorsement, was published by IASB on 13th January 2016. 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 estimating of the potential impact of the standard on its financial statement.

- Other changes to standards awainng European Union endorsement:
  - amendment to IAS 40 explaining conditions for classification of investment property,
  - annual improvements cycle 2014-2016 including: IFRS 1 regarding specific exclusions for first time IFRS adopters, IFRS 12 explaining disclosures for interests in other entities,
  - amendments to IFRS 2 regarding classification and measurement of share based payment, especially in form of shares settled in equity,
  - amendments to IAS 12 in respect of recognition of unrealized losses from debt instruments in deferred tax,

have no impact on financial statements.

IFRS 9 "Financial instruments"

Bank carried out the analysis of financial contracts held for the purpose of assessment of contract characteristics in respect of classification and measurement under IFRS 9. For specific cases there is still work to be performed to reach final conclusions in the assessment of classifaction and measurement.

In the corporate loan portfolio Bank identified mismatch of the tenor of the interest rate and its reset frequency. Solely payments of principal and interest (SPPI) test is designed for the purpose of confirmation, that those contracts will remain measured using amortized cost methodology. Also Bank assessed that specific contract clauses that could modify interest are related with customer credit risk and compliant with SPPI concept. Based on initial assessment Bank does not consider fair value measurement of corporate loans.

In the retail loan portfolio Bank holds credit card products and installment loans for credit card customers in which there is a leverage formula. It is not foreclosed that in the near future there may be a decision to modify existing contracts using formulas compliant with IFRS 9 SPPI logic in order to present them in the financial statements according to the current practice and logic that is coherent with the way it is managed and how it performs. However, it should be considered that Bank will measure the above mentioned portfolios using fair value methodology. Soon work will be started to create respective models to carry out that task. For now it is not possible to estimate impact of that measurement on the financial statement of the Bank. Bank infers that other retail products will be measured amortized cost methodology.

In the area of treasury products Bank, based on initial assessment, does not identify change to current logic of classification and measurement of securities. It is to be expected that securities that so far have been measured in the category of available for sale will be measured the same way in the portfolio of fair value through other comprehensive income (FVOCI), so they will measured at fair value recognized the changes in other comprehensive income.

Based on the history and plans for approach to management of assets in respect of the way cash flows from loan contracts are realized, Bank infers that business model assessment does not provoke changes in classification and measurement compared current practice under IAS 39. Bank grants loans and other forms of financing currently classified as loans under IAS 39 in order to obtain cash flows resulting from repayment of principal and interest only. Portfolio sales take place very rarely. In retail area Bank sold a significant credit deteriorated portfolio only once in 2016 and once in 2016. In 2017 no sales are planned. For corporate loans sales are also very rare and concern single exposures. All sales concerned credit deteriorated porfolios, exposures. So business model criteria determine that amortized cost is the right approach to measurement (assuming the SPPI is met).

Bank has not purchased any porftolios and in the processes of restructuring of contracts have not identified situations requiring derecognition form balance sheet. It is so neiter to be expected that according to IFRS 9 Bank will present purchased or originated credit-impaired assets (POCI) nor that interest income will be impacted, as it will be recognized in the same manner as under IAS 39.

All the above aspects, in order to obtain assurance that conclusions reached by Bank and requirements identified are correct, will be verified in the first half of 2017 by independent professional entity.

There will be no changes to hedge accounting program used by Bank both in terms of the nature of the hedge relationship, as well as in respect of amounts. Modifications related to the need to adopt IFRS 9 are limited to internal documentation update and adjustment of the appropriate processes.

The Bank started implementation of IFRS 9 in 2016,at first focusing on checking the adequacy of the existing in Bank tools and models to the impairment requirements defined in Standard as well as on identifying gaps in the processes used to calculate provisions. Review has covered all existing products and portfolios. Bank adopted implementation schedule according to identified needs.

Implementation plan includes quantitative elements related to the analytical part, understood as the development of existing and construction of new risk assessment tools / models as well as qualitative elements, including changes in internal rules governing process of credit exposures management, provisions calculation and reporting, in particular internal documents regulating these processes. Bank striving to optimize the workload assumed that most of the tasks will be performed in parallel, allowing efficient flow of information between various organizational units of the institution. Activities related to the construction of models and documentation should be completed by the end of second quarter of 2017 to allow parallel run. Second half of 2017 will be dedicated to model validation as well as changes in credit processes and internal regulations.

The key assumption standing behind implementation schedule was to provide sufficient time for Model Validation Bureau to conduct independent validation of newly prepared tools. The review is to cover a wide range of aspects including: correctness of methodological assumptions, assessment whether regulatory requirements are met, adequacy of the data used, quantitative tests and correctness of tools implementation in Bank's production environment. Publication of the validation report, including an evaluation of the correctness of implementation in the Bank's systems is scheduled for the fourth quarter of 2017 year.

The last point in the schedule planned for the end of 2017 is a series of training courses for Bank employees aimed at broadening knowledge about the changes.

The whole process of implementation, as per expectations of European Securities and Markets Authority, will be monitored by the Audit Committee.

According to the adopted schedule analytical work will be divided into two main parts. For customers from Corporate and Commercial sectors work will be focused on adjusting existing tools used to assess the creditworthiness of the customer to the requirements of IFRS 9. Due to high credit quality of the portfolio, and hence low default rates, the biggest challenge is to calibrate PD Life Time model. To achieve this objective Bank is collaborating with Citigroup to maximize the potential standing behind shared databases. It should be noted, however, that the final product will have to pass rigorous requirements of the internal model risk management policy which emphasizes the need of the correctness of the model fit to local conditions.

Second stream of the work is devoted to customers from Retail Banking Sector for which Bank assumes to use existing scorecards and based on them build new models for the provision calculation. The main focus is on development, for all major Bank's portfolios, coherent, uniform and stable methodology that will allow to identify all causes standing behind changes in the reserve levels. As a starting point Bank adopted current credit and collection policies including cut-offs levels as well as early-warning indicators that allow for identification in advance clients with increased risk.

In connection with the implementation of standard Bank assumes an increase in provision levels which, as expected, will be reflected in the following years in the Bank's capital. The increase in provisions is related to performing portfolio and has a twofold ground:

a) increase in the coverage for Stage 1 accounts from the period of LIP (Loss Identification Period) to 12 months,

b) necessity for the accounts qualified to Stage 2 to recognize the losses over the entire horizon of a account's life.

Therefore, much emphasis must be put on defining clear and transparent criteria standing behind significant increase in credit risk concept. These criteria should be constant over time, which will enable to conduct an analysis of the reasons for changes in provisions.

It should also be noted that the implementation of these regulations shall not affect the Bank's business model.

Bank carries out the work of implementation under the guidance of the Steering Committee, which includes, among others, board members responsible for the areas of finance and risk. The work schedule is dependent on the final conclusions of agreement analysis and verification by the professional external entity. It is assumed that before half year of 2017end, the Bank will have the final, verified conclusions regarding the classification and valuation method for key products.

As signaled, in probable case of valuation of selected exposures at fair value, the Bank assumes that by the end of the third quarter of 2017, a model for the implementation of this obligation will be developed.

In the second half of 2017 internal documentation and processes required to implement the obligations arising from IFRS 9 will be adjusted.

Standards demanding applications for the first time in 2016

In 2016 the following standards became applicable, but their implementation has no significant impact on the financial statement:

- amendments to IAS 1 – concerns significance and decomposition of information in the financial statement
- amendmens to IFRS 11 – regards obligation of application of accounting for acquisitions of interests in joint operations
- amendments to IAS 16 – eliminates option of amortization of tangible fixed asset based on income generation
- amendments to IAS 19 – describes change of discount rate estimation for measurement of employee benefits
- amendment to IAS 38 - eliminates option of amortization of intangible asset based on income generation
- amendments to IAS 27 – allows use of equity method in separate financial statements
- annual improvements to IFRS cycles 2010-2012 and 2012-2014 – regard insignificant standards changes without impact to Group.

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 2015 according to the opinion of the Ministry of Finance and the statement of Financial Supervision Authority mentioned above, in order to ensure compliance with the recommended approach and comparability of the financial statements across the banking sector in respect to accounting for Bank Guarantee Fund costs, the Bank decided to amortize those costs over 2015, the same way as in previous years.

If Bank had recognized Bank Guarantee Fund costs immediately, the costs of operations and general management presented in this condensed interim financial statement for the 1st half of 2015 would increase by PLN 33,672 thousand. As a result, the consolidated net profit of the Bank for the 1st half of 2015 would be reduced by PLN 28,613 thousand.

In 2016, the amendment of the Act on Bank Guarantee Fund of 14 December 1994 changed the way and dates of calculating payments for Bank Guarantee Fund from annual to quarterly. Tax expenses in both periods are comparable.

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 2016	31 December 2015
1	USD	4.1793	3.9011
1	CHF	4.1173	3.9394
1	EUR	4.4240	4.2615

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 meeting the criteria 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 or 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 a part resulting from hedged risk - in the income statement. In case of other parts, the changes in carrying amount are booked in accordance with the general rules for a given class of financial instruments.

Offsetting financial instruments

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

Cash pooling

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

Repurchase and resale agreements, repo / reverse repo transactions

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively, as well as repo and reverse repo transactions in securities. Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the statement of financial position as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method. In 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 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 an objective evidence of impairment resulting from one or more events taking place after the initial recognition of an asset (the loss event) and the loss event (or events) influences the future expected cash flows resulting from a financial asset or a group of financial assets which may be reliably estimated.

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

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

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

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 the 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 increasesafter 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 liabiailities 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 is discounted to their present value using the discount rate before taxation, which represents 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 can not 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 2016.

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

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

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

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

Property and equipment includes rights to perpetual usufruct of land.

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

Employee benefits

Short-term employee benefits

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

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

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

Share-based payments

Within the equity compensation plans, the selected employees get under stock award programs based on shares of Citigroup common stock in the form of deferred stock (CAP) and under stock award programs based on phantom shares of Bank Handlowy w Warszawie S.A. In 2015 the SOP programme was completed. All the options which had not been completed until the 29th 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 the Bank's shares price or Citigroup shares price. 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 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 also 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 is included in "Other operational income" or "Other operational expenses" in the income statement.

Fee and commission income and expenses

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

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

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

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

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

Income and expense from distribution of insurance products

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

In 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 allocation of total income is established. Income from the sale of an 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 an 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 borrower's qualified to a particular portfolio. If necessary, historical loss experience may be adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based.

The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required. Further, data are backtested (based on historical data) to compare the actual amounts with estimated credit impairment, what may have an influence on 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 performance, 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 – the 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	2016			2015		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	439,590	563,981	1,003,571	420,852	555,748	976,600
Internal net interest income, including:	(36,403)	36,403	-	(53,265)	53,265	-
internal income	-	36,403	36,403	-	53,265	53,265
internal costs	(36,403)	-	(36,403)	(53,265)	-	(53,265)
Net fee and commission income	275,333	285,896	561,229	279,948	351,402	631,350
Dividend income	1,537	6,513	8,050	1,667	5,715	7,382
Net income on trading financial instruments and revaluation	315,565	31,632	347,197	265,928	27,190	293,118
Net gain on debt investment securities available for sale	44,746	-	44,746	145,246	-	145,246
Net gain on capital investment instruments available for sale	29,436	66,477	95,913	2,232	-	2,232
Net gain on hedge accounting	9,553	-	9,553	7,949	-	7,949
Net other operating income	21,348	(10,143)	11,205	17,570	(29,740)	(12,170)
General administrative expenses	(492,989)	(639,312)	(1,132,301)	(544,279)	(663,596)	(1,207,875)
Depreciation expense	(20,985)	(48,937)	(69,922)	(23,298)	(47,124)	(70,422)
Profit/loss on sale of other assets	116	-	116	47	55	102
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	25,477	(71,245)	(45,768)	3,489	13,713	17,202
Operating profit	**648,727**	**184,862**	**833,589**	**577,351**	**213,363**	**790,714**
Share in net profits of entities valued at equity method	50	-	50	61	-	61
Tax on some financial institutions	(50,173)	(19,138)	(69,311)	-	-	-
Profit before tax	**598,604**	**165,724**	**764,328**	**577,412**	**213,363**	**790,775**
Income tax expenses			(162,748)			(164,356)
Net profit			**601,580**			**626,419**

As at	31.12.2016			31.12.2015		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets	**38,493,344**	**6,716,572**	**45,209,916**	**43,034,095**	**6,472,697**	**49,506,792**
Total liabilities and equity, including:	**32,836,784**	**12,373,132**	**45,209,916**	**38,188,084**	**11,318,708**	**49,506,792**
Liabilities	27,443,762	10,975,704	38,419,466	32,930,579	9,725,557	42,656,136

4. Net interest income

PLN'000	2016	2015
Interest and similar income due to:		
Balances with Central Bank	17,918	16,726
Amounts due from banks	19,926	38,185
Amounts from customers, including:	837,348	778,316
financial sector entities	31,069	21,362
non-financial sector entities	806,279	756,954
Debt securities available-for-sale	311,412	297,497
Debt securities held-for-trading	48,151	73,416
Liabilities with negative interest rate	3,676	-
Hedging derivates	20,173	28,273
	1,258,604	**1,232,413**
Interest expense and similar charges due to:		
Amounts due to Central Bank	(82)	-
Amounts due to banks	(41,546)	(40,967)
Amounts due to financial sector entities	(54,354)	(48,985)
Amounts due to non-financial sector entities	(111,355)	(115,952)
Loans and advances received	(866)	(1,648)
Assets with negative interest rate	(945)	-
Derivatives in hedge accounting	(45,885)	(48,261)
	(255,033)	**(255,813)**
NNet interest income	**1,003,571**	**976,600**

Net interest income for 2016 includes interest accrued on impaired loans of PLN 13,408 thousand (for 2015: PLN 16,921 thousand).

5. Net fee and commission income

PLN'000	2016	2015
Fee and commission income		
Insurance and investment products (agency)	79,564	119,656
Payment and credit cards	158,912	188,001
Payment services	105,469	110,993
Custody services	108,376	123,637
Charges from cash loans	1,351	2,606
Brokerage operations	48,173	53,999
Cash management services on customers' accounts	25,437	26,454
Guarantees granted	18,435	16,343
Financial liabilities granted	5,882	5,420
Other	87,749	62,326
	639,348	**709,435**
Fee and commission expense		
Payment and credit cards	(27,623)	(24,977)
Brokerage operations	(13,324)	(16,679)
Fees paid to the National Depository for Securities (KDPW)	(17,481)	(19,367)
Broker's fees	(4,246)	(4,512)
Other	(15,445)	(12,550)
	(78,119)	**(78,085)**
NFee and commission income	**561,229**	**631,350**

The net fee and commission income for 2016 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 165,169 thousand (for 2015: PLN 194,649 thousand) and commission expenses in the amount of PLN 27,623 thousand (for 2015: PLN 24,977 thousand).

6. Dividend income

PLN'000	2016	2015
Securities available-for-sale	7,297	7,018
Securities held-for-trading	753	364
Total dividend income	**8,050**	**7,382**

7. Net income on trading financial instruments and revaluation

PLN'000	2016	2015
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	(53 747)	(29 914)
Equity instruments	(684)	(8 035)
Derivative instruments, including:	42 809	64 559
Interest rate derivatives	39 854	53 614
	(11 622)	**26 610**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	468 071	361 841
Revaluation	(109 252)	(95 333)
	358 819	**266 508**
NNet income on trading financial instruments and revaluation	**347 197**	**293 118**

The net income on trading financial instruments and revaluation for 2016 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 18,894 thousand (in 2015: PLN (11,170) 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	2016	2015
Fair value hedge accounting		
Net gain on hedged transaction valuation	(37,135)	94,294
Net gain on hedging transaction valuation	46,688	(86,345)
Hedge accounting income	**9,553**	**7,949**

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	2016	2015
Other operating income		
Services for related parties	9,905	8,968
Rental of office space	9,405	9,539
Reversal of provision on litigation	3,391	-
Other	17,433	21,632
	40,134	**40,139**
Other operating expenses		
Amicable procedure and debt collection expenses	(11,416)	(19,509)
Fixed assets held-for-sale maintenance cost	(118)	(173)
Creation of provisions for litigations (net)	-	(15,568)
Other	(17,395)	(17,059)
	(28,929)	**(52,309)**
Net other operating income	**11,205**	**(12,170)**

10. General administrative expenses

PLN'000	2016	2015
Staff expenses		
Remuneration costs, including:	(398,387)	(404,501)
Provisions for retirement allowances	(29,576)	(25,130)
Bonuses and rewards, including:	(88,368)	(94,351)
Payments related to own equity instruments	(9,787)	(10,254)
Rewards for long time employment	(36)	(45)
Social insurance costs	(65,963)	(66,911)
	(552,718)	**(565,763)**
Administrative expenses		
Telecommunication fees and hardware purchases	(189,622)	(200,464)
Costs of external services, including advisory, audit, consulting services	(55,356)	(66,253)
Building maintenance and rent costs	(84,469)	(82,157)
Advertising and marketing costs	(27,543)	(10,666)
Cash management service, KIR service and other transactional costs	(39,247)	(42,580)
Costs of external services related to the distribution of banking products	(18,183)	(15,717)
Postal services, office supplies and printmaking costs	(11,195)	(10,262)
Training and education costs	(2,629)	(2,742)
Banking and capital supervision costs	(1,435)	(3,744)
Bank Guarantee Funds costs	(75,070)	(130,934)
Other expenses	(74,834)	(76,593)
	(579,583)	**(642,112)**
Total general administrative expenses	**(1,132,301)**	**(1,207,875)**

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

PLN'000	2016	2015
Short-term employee benefits	12,885	12,536
Long-term employee benefits	3,706	4,397
Capital assets	3,727	3,705
	20,318	**20,638**

11. Depreciation expense

PLN'000	2016	2015
Depreciation of property and equipment	(32,229)	(35,853)
Amortization of intangible assets	(37,693)	(34,569)
Depreciation expense, total	**(69,922)**	**(70,422)**

12. Sale of other assets

PLN'000	2016	2015
Profits on:		
SSale of tangible fixed assets	43	60
SSale of fixed assets held-for-sale	73	43
	116	**103**
Losses on:		
SSale of tangible fixed assets	-	(1)
	-	(1)
Sale of other assets	**116**	**102**

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

PLN'000	2016			
	Institutional customers	Retail customers	Banks	Total
Impairment allowances for financial assets:				
Amounts due from banks and customers	(50,989)	(138,634)	(3,426)	(193,049)
Amounts due from matured transactions in derivative instruments	(73)	-	-	(73)
	(51,062)	**(138,634)**	**(3,426)**	**(193,122)**
Reversals of impairment allowances for financial assets:				
Amounts due from banks and customers	55,870	50,742	4,592	111,204
Amounts due from matured transactions in derivative instruments	7,693	-	-	7,693
Recovery on the sale of debt	9,438	10,067	-	19,505
Other	(2,296)	8,012	-	5,716
	70,705	**68,821**	**4,592**	**144,118**
Net impairment due to financial assets value losses	**19,643**	**(69,813)**	**1,166**	**(49,004)**
Establish of provisions for granted financial and guarantee commitments	(17,913)	-	-	(17,913)
Release of provisions for granted financial and guarantee commitments	21,097	52	-	21,149
Net impairment due to provisions for granted financial and guarantee commitments	**3,184**	**52**	**-**	**3,236**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**22,827**	**(69,761)**	**1,166**	**(45,768)**

PLN'000	2015			
	Institutional customers	Retail customers	Banks	Total
Impairment write-offs of 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 write-offs of 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 the 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
Establishment 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**

14. Income tax expense

Recognized in the income statement

PLN'000	2016	2015
Current tax		
Current year	(168,689)	(117,857)
Adjustments for prior years	(18,903)	(194)
	(187,592)	**(118,051)**
Deferred tax		
Origination and reversal of temporary differences	24,844	(46,305)
	24,844	**(46,305)**
Total income tax expense in income statement	**(162,748)**	**(164,356)**

Reconciliation of effective tax rate

PLN'000	2016	2015
Profit before tax	764,328	790,775
Income tax at the domestic corporate tax rate of 19%	(145,222)	(150,247)
Impairment write-offs not constituting deductible expenses	(5,334)	(11,592)
Deductible income not recognized in the income statement	(513)	(642)
Deductible expenses not recognized in the income statement	(3,858)	(3,083)
Non-taxable income	7,591	5,414
Other permanent differences, incluiding other non-deductible expenses	(15,412)	(4,206)
Total tax expenses	**(162,748)**	**(164,356)**
Effective tax rate	**21.29%**	**20.78%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2016 is related to debt and equity instruments available-for-sale and valuation of defined benefit plan and amounted to PLN 51,506 thousand (31 December 2015: PLN 39,554 thousand).

15. Earnings per share

As at 31 December 2016, earnings per share amounted to PLN 4.60 (31 December 2015: PLN 4.79).

The calculation of earnings per share as at 31 December 2016 was based on profit attributable to shareholders of PLN 601,580 thousand (31 December 2015: PLN 626,419 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2016 of 130,659,600 (31 December 2015: 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 2016	**(208,178)**	**39,553**	**(168,625)**
AFS valuation change	(107,993)	20,519	(87,474)
Valuation of sold AFS moved to income statement	44,746	(8,502)	36,244
Net actuarial profits on a defined benefit plan	342	(64)	278
As at 31 December 2016	**(271,083)**	**51,506**	**(219,577)**

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 losses on a defined benefit plan	1,093	(207)	886
As at 31 December 2015	**(208,178)**	**39,553**	**(168,625)**

17. Cash and balances with the Central Bank

PLN'000	31.12.2016	31.12.2015
Cash in hand	380,757	477,105
Current balances with Central Bank	3,587	1,693,132
Deposits	281,411	-
Cash and balances with the Central Bank, total	**665,755**	**2,170,237**

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 2016 to PLN 1,149,911 thousand (31 December 2015: PLN 1,277,754 thousand).

18. Amounts due from banks

PLN'000	31.12.2016	31.12.2015
Current accounts	8,899	184,445
Deposits	-	28,111
Loans and advances	913	4,461
Unlisted debt securities	-	28,455
Receivables due to purchased securities with a repurchase agreement	418,283	215,166
Deposits pledged as collateral of derivative instruments and stock market transactions	159,169	286,641
Other receivables	-	11,574
Total gross amount	**587,264**	**758,853**
Impairment write-offs	(177)	(1,750)
Total net amount due from banks	**587,087**	**757,103**

The movement in amounts due from banks is as follows:

PLN'000	31.12.2016	31.12.2015
As at 1 January	(1,750)	(2,880)
Increases (due to):		
Write-offs creation	(3,426)	(3,900)
Decreases (due to):		
Write-offs release	4,592	4,972
Other	407	58
As at 31 December	**(177)**	**(1,750)**

As at 31 December 2016 and 31 December 2015, 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	31.12.2016	31.12.2015
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	482	379,866
Other financial entities	58,299	33,054
Central governments	2,546,247	4,279,640
	2,605,028	**4,692,560**
Including:		
Listed on active market	2,605,028	4,297,762
Unlisted on active market	-	394,798
Equity instruments held-for-trading	**9,243**	**27,592**
Including:		
Listed on active market	9,243	27,592
Derivative financial instruments	**1,167,134**	**2,267,132**
Financial assets held-for-trading, total	**3,781,405**	**6,987,284**

** As at 31 December 2016, some of the securities (bonds) issued by banks in the amount of PLN 482 thousand are covered by Government guarantees (31 December 2015: PLN 406 thousand).*

Financial liabilities held-for-trading

PLN'000	31.12.2016	31.12.2015
Short positions in financial assets	208,106	988,102
Derivative financial instruments	1,097,508	2,259,421
Financial liabilities held-for-trading	**1,305,614**	**3,247,523**

As at 31 December 2016 and 31 December 2015, 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 2016 and 31 December 2015, financial assets from derivatives transactions were not adjusted due to counterparty credit risk.

Derivative financial instruments as at 31 December 2016

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**19,554,407**	**23,382,572**	**57,901,103**	**24,179,834**	**125,017,916**	**873,191**	**913,240**
FRA	15,100,000	12,295,600	750,000	-	28,145,600	1,352	1,458
Interest rate swaps (IRS)	2,590,538	7,406,664	46,239,791	14,195,451	70,432,444	475,564	531,287
Currency-interest rate swaps (CIRS)	1,695,111	3,680,308	8,821,662	9,984,383	24,181,464	386,873	370,946
Interest rate options	80,890	-	2,089,650	-	2,170,540	9,402	9,350
Futures*	87,868	-	-	-	87,868	-	199
Currency instruments	**13,847,064**	**5,701,087**	**2,130,378**	**37,014**	**21,715,543**	**254,131**	**143,840**
FX forward	2,222,894	1,710,653	337,921	37,014	4,308,482	82,173	42,147
FX swap	9,689,383	784,910	1,562,143	-	12,036,436	117,387	46,958
Foreign exchange options	1,934,787	3,205,524	230,314	-	5,370,625	54,571	54,735
Securities transactions	**766,911**	**1,342**	**-**	**-**	**768,253**	**2,812**	**3,331**
Futures*	8,291	1,342	-	-	9,633	-	-
Securities purchased / sold pending delivery	758,620	-	-	-	758,620	2,812	3,331
Commodity transactions	**149,986**	**358,250**	**41,072**	**-**	**549,308**	**37,000**	**37,097**
Swaps	70,024	306,423	41,072	-	417,519	23,775	23,824
Options	79,962	51,827	-	-	131,789	13,225	13,273
Total derivative instruments	**34,318,368**	**29,443,251**	**60,072,553**	**24,216,848**	**148,051,020**	**1,167,134**	**1,097,508**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2015

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**29,606,742**	**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	**1,790,280**	**-**	**-**	**-**	**1,790,280**	**1,575**	**4,252**
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**
Swap	122,107	430,807	260,071	-	812,985	94,720	94,685
Options	53,790	15,198	-	-	68,988	14	14
Total derivative instruments	**54,571,633**	**33,549,480**	**68,356,426**	**17,089,067**	**173,566,606**	**2,267,132**	**2,259,421**

**Exchange-traded products*

20. Hedging derivates

Assets - Positive valuation

PLN'000	31.12.2016	31.12.2015
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	12,244	1,795

Liabilities – Negative valuation

PLN'000	31.12.2016	31.12.2015
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	39,897	112,383

Hedging derivates as at 31 December 2016

PLN'000	Nominal amount with remaining life of				Total
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	
Interest rate instruments					
Interest rate swaps (IRS)	-	-	3,266,396	1,338,000	4,604,396

Hedging derivates as at 31 December 2015

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

21. Debt securities available-for-sale

PLN'000	31.12.2016	31.12.2015
Bonds and notes issued by:		
Central bank	2,239,715	-
Other banks*	66,384	1,509,007
Central governments, including:	16,766,272	16,842,252
bonds subject to fair value hedge accounting	4,794,696	4,657,996
Debt securities available-for-sale, total	**19,072,371**	**18,351,259**
Including:		
Listed on active market instruments	16,832,656	17,730,251
Unlisted on active market instruments	2,239,715	621,008

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

PLN'000	2016	2015
As at 1 January	**18,351,259**	**14,435,099**
Increases (due to):		
Purchases	41,491,375	172,338,701
Exchange differences	260,691	213,522
Depreciation of discount, premium and interest	164,552	241,808
Decreases (due to):		
Sale	(40,907,900)	(168,634,720)
Revaluation	(50,431)	(243,151)
Depreciation of premium	(237,175)	-
As at 31 December	**19,072,371**	**18,351,259**

** As at 31 December 2016, some of the securities (bonds) issued by other banks in the amount of PLN 66,384 thousand are covered by Government guarantees (31 December 2015: PLN 556,274 thousand).*

22. Equity investments valued using the equity method

PLN'000	31.12.2016	31.12.2015
Shares in subsidiaries	10,471	7,768
Including:		
Unlisted instruments	10,471	7,768

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

PLN'000	2016	2015
As at 1 January	7,768	7,765
Increases (due to):		
Revaluation	2 703	3
As at 31 December	**10,471**	**7,768**

23. Equity investments available-for-sale

PLN'000	31.12.2016	31.12.2015
Stocks and shares in other entities	29,669	77,229
Impairment	(6,827)	(9,485)
Other equity investments available-for-sale, total	**22,842**	**67,744**
Including:		
Listed on active market instruments	1,119	1,006
Unlisted on active market instruments	21,723	66,738

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

PLN'000	2016	2015
As at 1 January	**67,744**	**8,211**
Increases (due to):		
Revaluation	-	63,050
Decreases (due to):		
Revaluation	(44,246)	-
Sale	(656)	(3,517)
As at 31 December	**22,842**	**67,744**

In the 2016 the following events took place:

- there was a sale of shares in Odlewnie Polskie S.A.. The balance value of sold shares amounted to PLN 656 thousand and the profit on sales to PLN 2,938 thousand.

In the 2015 the following events took place:

- there was 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 31 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 sale 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 and the profit on sales to PLN 2,232 thousand.

22. Amounts due from customers

PLN'000	31.12.2016	31.12.2015
Amounts due from financial sector entities		
Loans and advances	293,117	307,402
Debt securities unlisted	1,199,671	199,724
Receivables subject to securities sale and repurchase agreements	-	1,356,247
Guarantee funds and deposits pledged as collateral	211,360	186,007
Other receivables	3,916	1,605
Total gross amount	**1,708,064**	**2,050,985**
Impairment write-offs	(17,810)	(17,270)
Total net amount	**1,690,254**	**2,033,715**
Amounts due from non-financial sector entities		
Loans and advances	16,051,239	15,254,953
Unlisted debt securities	514,401	1,075,891
Purchased receivables	1,116,054	1,102,720
Effected guarantees	1,056	1,577
Other receivables*	32,660	74,751
Total gross amount	**17,715,410**	**17,509,892**
Impairment write-offs	(545,611)	(568,136)
Total net amount	**17,169,799**	**16,941,756**
Total net amounts due from customers	**18,860,053**	**18,975,471**

** "Other receivables" includes leasing receivables in the amount of PLN 13,678 thousand (31 December 2015: PLN 66,895 thousand).*

The Group decided to invest in securities based on economic calculation, measuring return on investment against the potential risks. The Group that owns the portfolio (the Initiator) founds a special purpose company (SPV) in order to issue debt securities in each securitization transaction. The issued debt securities are solely repaid from the cash flows generated by securitized receivables portfolio which the SPV bought from the Initiator. Unitl now the Group acted as investor and acquired the senior tranche in the amount of PLN 1,199,611 thousand. Securities purchased by the Group are not traded on the market. The Group intends to maintain investments until the maturity date. The main risk of securitisation transactions is credit risk. Group's maximum exposure to loss from involment in these entities is equal to their carrying gross value, as at 31 December 2016 in the of amount PLN 1,199,671 thousand (31 December 2015: PLN 199,724 thousand). The carrying value of assets relating in Bank participation in unconsolidated structured entities as at 31 December 2016 in the amount of PLN 1,199,611 thousand (31 December 2015: PLN 199,714 thousand).

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

PLN'000	31.12.2016	31.12.2015
Portfolio impairment loss	(228,081)	(224,106)
Individual impairment loss	(255,605)	(296,332)
Incurred but not reported losses (IBNR)	(79,735)	(64,968)
Impairment loss, total	(563,421)	(585,406)

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

PLN'000	2016			2015		
	Institutional customers	Retail customers	Total	Institutional customers	Retail customers	Total
As at 1 January	**(321,490)**	**(263,916)**	**(585,406)**	**(403,578)**	**(395,318)**	**(798,896)**
Increases (due to):						
Creation of write-offs	(50,989)9)	(138,634)	(189,623)	(63,544)	(110,977)	(174,521)
Other	(12,831)	607	(12,224)	(3,253)	433	(2,820)
Decreases (due to):						
Restating receivables	23,074	24,272	47,346	41,530	58,338	99,868
Net write-offs on receivables on taken instruments transactions	7,620	-	7,620	1,105	-	1,105
Write-offs release	55,870	50,742	106,612	63,486	91,436	154,922
Sale of receivables	20,107	42,147	62,254	42,764	92,172	134,936
As at 31 December	**(278,639)**	**(284,782)**	**(563,421)**	**(321,490)**	**(263,916)**	**(585,406)**

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	31.12.2016	31.12.2015
Gross finance lease receivables	13,868	68,127
Unrealized financial income	(190)	(1,232)
Net finance lease receivables	**13,678**	**66,895**

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

PLN'000	31.12.2016	31.12.2015
Less than 1 year	13,066	57,957
Between 1 and 5 years	802	10,170
	13,868	**68,127**

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

PLN'000	31.12.2016	31.12.2015
Less than 1 year	12,884	56,933
Between 1 and 5 years	794	9,962
	13,678	**66,895**

As at 31 December 2016, impairment of finance lease receivables amounted to PLN 4,204 thousand (as at 31 December 2015: PLN 8,010 thousand). Finance lease income is presented in interest income.

25. Tangible fixed assets

Movements of tangible fixed assets in 2016

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2016	**613,671**	**96**	**2,982**	**292,034**	**9,457**	**918,240**
Increases:						
Purchases	158	-	688	3,878	24,227	28,951
Other increases	45	-	-	251	-	296
Decreases:						
Disposals	-	-	(2,455)	-	-	(2,455)
Liquidation	(25,560)	-	-	(22,002)	-	(47,562)
Other decreases	(20)	-	-	(1,207)	-	(1,227)
Transfers	4,477	-	-	5,158	(14,219)	(4,584)
As at 31 December 2016	**592,771**	**96**	**1,215**	**278,112**	**19,465**	**891,659**
Depreciation						
As at 1 January 2016	**305,483**	**96**	**1,467**	**257,121**	**(7)**	**564,160**
Increases:						
Amortization change for the period	17,038	-	298	14,893	-	32,229
Other increases	8	-	-	400	7	415
Decreases:						
Disposals	-	-	(1,109)	-	-	(1,109)
Liquidation	(24,163)	-	-	(21,653)	-	(45,816)
Other decreases	-	-	(146)	(1,045)	-	(1,191)
As at 31 December 2016	**298,366**	**96**	**510**	**249,716**	**-**	**548,688**
Carrying amount						
As at 1 January 2016	308,188	-	1,515	34,913	9,464	354,080
As at 31 December 2016	**294,405**	**-**	**705**	**28,396**	**19,465**	**342,971**

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**

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Depreciation						
As at 1 January 2015	**289,412**	**99**	**7,393**	**272,424**	**-**	**569,328**
Increases:						
Amortization charge for the period	17,452	2	1,750	16,649	-	35,853
Other increases	-	-	40	827	-	867
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**

26. Intangible assets

Movements of intangible assets in 2016

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2016	**1,245,976**	**2,560**	**406,003**	**18,519**	**10,331**	**1,683,389**
Increases:						
Purchases	-	-	812	-	14,629	15,441
Decreases:						
Liquidation	-	-	(4,609)	-	1	(4,608)
Other decreases	-	(15)	-	-	-	(15)
Transfers	-	-	13,638	-	(12,271)	1,367
As at 31 December 2016	**1,245,976**	**2,545**	**415,844**	**18,519**	**12,690**	**1,695,574**
Depreciation						
As at 1 January 2016	**-**	**2,320**	**290,678**	**18,512**	**-**	**311,510**
Increases:						
Amortization charge for the period	-	42	37,644	7	-	37,693
Decreases:						
Liquidation	-	-	(4,475)	-	-	(4,475)
Other decreases	-	(15)	-	-	-	(15)
As at 31 December 2016	**-**	**2,347**	**323,847**	**18,519**	**-**	**344,713**
Carrying amount						
As at 1 January 2016	1,245,976	240	115,325	7	10,331	1,371,879
As at 31 December 2016	**1,245,976**	**198**	**91,997**	**-**	**12,690**	**1,350,861**

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
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**

As at 31 December 2016, 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: the 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	31.12.2016
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 2016, the discount rate amounted to 9.20% (9.10% at the end of 2015).

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 2016.

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	31.12.2016	31.12.2015
Deferred income tax asset	406,659	568,132
Deferred income tax liability	208,276	406,546
Deferred income tax net asset	**198,383**	**161,586**

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	31.12.2016	31.12.2015
Interest accrued and other expense	9,957	14,652
Revaluation impairment write-offs	28,303	25,767
Unrealized premium from securities	46,370	8,273
Negative valuation of derivative financial instruments	158,457	374,132
Negative valuation of securities held-for-trading	2,938	2,892
Income collected in advance	26,341	19,023
Valuation of shares	2,039	2,545
Commissions	8,181	8,526
Debt and equity securities available-for-sale	50,395	38,378
Staff expenses and other costs due to pay	57,764	56,744
Differences between balance-sheet and tax value of leases	(6,335)	(4,768)
Other	22,249	21,968
Deferred tax asset	**406,659**	**568,132**

Deferred tax liability is attributable to the following:

PLN'000	31.12.2016	31.12.2015
Interest accrued (income)	39,412	21,587
Positive valuation of derivative financial instruments	127,598	318,957
Unrealized securities discount	7,372	1,105
Income to receive	4,842	4,131
Positive valuation of securities held-for-trading	(69)	1,950
Debt and equity securities available-for-sale	9,313	18,602
Investment relief	12,334	13,236
Valuations of shares	1,884	1,875
Other	5,590	25,103
Deferred tax liability	**208,276**	**406,546**
Net deferred income tax asset	**198,383**	**161,586**

Movement in temporary differences during the year 2016

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2016	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2016
Interest accrued and other expense	14,652	(4,695)	-	9,957
Revaluation impairment write-offs	25,767	2,536	-	28,303
Unrealized premium from securities	8,273	38,097	-	46,370
Negative valuation of derivative financial instruments	374,132	(215,675)	-	158,457
Negative valuation of securities held-for-trading	2,892	46	-	2,938
Income collected in advance	19,023	7,318	-	26,341
Valuation of shares	2,545	(506)	-	2,039
Commissions	8,526	(345)	-	8,181
Debt and equity securities available-for-sale	38,378	-	12,017	50,395
Staff expenses and other costs due to pay	56,744	1,084	(64)	57,764
Differences between balance-sheet and tax value of leases	(4,768)	(1,567)	-	(6,335)
Other	21,968	281	-	22,249
	568,132	**(173,426)**	**11,953**	**406,659**

The movement in temporary differences relating to deferred tax provision:

PLN'000	As at 1 January 2016	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2016
Interest accrued (income)	21,587	17,825	-	39,412
Positive valuation of derivative financial instruments	318,957	(191,359)	-	127,598
Unrealized securities discount	1,105	6,267	-	7,372
Income to receive	4,131	711	-	4,842
Positive valuation of securities held-for-trading	1,950	(2,019)	-	(69)
Debt and equity securities available-for-sale	18,602	(9,289)	-	9,313
Investment relief	13,236	(902)	-	12,334
Valuations of shares	1,875	9	-	1,884
Other	25,103	(19,513)	-	5,590
	406,546	**(198,270)**	**-**	**208,276**
Change in net deferred income tax assets	**161,586**	**24,844**	**11,953**	**198,383**

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
Negative valuation of derivative financial instruments	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 cost 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 liability:

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
Positive valuation of derivative financial instruments	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
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**

29. Other assets

PLN'000	31.12.2016	31.12.2015
Interbank settlements	3,556	4,357
Settlements related to brokerage activity	125,766	114,456
Income to receive	65,843	66,509
Staff loans out of the Social Fund	17,719	17,722
Sundry debtors	72,064	67,192
Prepayments	4,696	7,046
Other	-	703
Other assets, total	**289,644**	**277,985**
Including financial assets*	219,105	204,430

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

30. Amounts due to banks

PLN'000	31.12.2016	31.12.2015
Current accounts	1,466,809	681,202
Term deposits	503,520	4,460,693
Loans and advances received	128,026	198,203
Liabilities due to sold securities under repurchase agreements	212,372	1,623,456
Other liabilities	15	7
Total amounts due to banks	**2,310,742**	**6,963,561**

31. Amounts due to customers

PLN'000	31.12.2016	31.12.2015
Deposits from financial sector entities		
Current accounts	671,625	226,438
Term deposits	4,024,501	3,154,694
	4,696,126	**3,381,132**
Deposits from non-financial sector entities		
Current accounts, including:	22,301,469	20,194,711
institutional customers	10,895,348	10,454,683
individual customers	8,280,082	7,074,422
public sector units	3,126,039	2,665,606
Term deposits, including:	6,821,412	7,699,698
institutional customers	5,041,859	5,972,704
individual customers	1,668,893	1,667,610
public sector units	110,660	59,384
	29,122,881	**27,894,409**
Total deposits	**33,819,007**	**31,275,541**
Other liabilities		
Securities sold under repurchase agreements	-	188,505
Other liabilities, including:	117,504	122,257
liabilities due to deposits	80,622	99,207
Total other liabilities	**117,504**	**310,762**
Total amounts due to customers	**33,936,511**	**31,586,303**

32. Provisions

PLN'000	31.12.2016	31.12.2015
Litigation	3,823	10,522
Granted financial and guarantee liabilities	7,215	10,451
Workforce restructuring	4,171	680
Restructuring of the branch network	7,647	1,841
Provisions, total	**22,856**	**23,494**

The movement in provisions is as follows:

PLN'000	2016	2015
As at 1 January	23,494	26,409
Provisions for:		
Litigation	10,522	9,634
Granted financial and guarantee commitments	10,451	13,238
Workforce restructuring	680	158
Restructuring of the branch network	1,841	3,379
Increases:		
Charges to provisions in the period:	35,514	44,720
litigation	1,571	16,775
granted financial and guarantee commitments	17,913	25,956
workforce restructuring	4,056	680
restructuring of the branch network	11,974	1,309
Decreases:		
Release of provisions in the period	(27,088)	(30,808)
litigation	(4,962)	(1,207)
granted financial and guarantee commitments	(21,149)	(28,743)
employment restructuring	-	(158)
restructuring of the branch network	(977)	(700)
Provisions used in the period, including:	(9,064)	(16,827)
litigation	(3,308)	(14,680)
workforce restructuring	(565)	-
restructuring of the branch network	(5,191)	(2,147)
As at 31 December	**22,856**	**23,494**

33. Other liabilities

PLN'000	31.12.2016	31.12.2015
Staff benefits	43,823	48,212
Interbank settlements	145,531	95,534
Inter-branch settlements	718	-
Settlements related to brokerage activity	129,071	118,405
Settlements with Tax Office and National Insurance (ZUS)	25,684	20,120
Sundry creditors	144,561	115,900
Accruals:	289,420	298,774
Provision for employee payments	93,949	107,759
Provision for employee retirement	41,936	38,084
IT services and bank operations support	62,098	78,939
Consultancy services and business support	24,091	21,942
Other	67,346	52,050
Deferred income	25,038	25,927
Other liabilities, total	**803,846**	**722,872**
Including financial liabilities*	753,124	676,825

** 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 2016

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	587,264	381,399	205,865	-	-	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	2,605,028	313,250	-	246,232	1,492,755	552,791
Financial assets available-for-sale							
Debt securities available-for-sale	21	19,072,371	2,239,715	-	-	15,163,320	1,669,336
Amounts due from customers (gross)							
Amounts due from financial sector entities	24	1,708,064	198,132	70,000	239,932	1,200,000	-
Amounts due from non-financial sector entities	24	17,715,410	6,803,454	1,228,782	2,064,510	5,557,378	2,061,286
Amounts due to banks	30	2,310,742	2,140,202	20,897	34,627	114,977	39
Amounts due to customers							
Amounts due to financial sector entities	31	4,696,177	4,650,566	41,959	3,633	-	19
Amounts due to non-financial sector entities	31	29,240,334	28,254,705	706,906	261,019	17,651	53

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

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**			

The par value of 1 share amounts to PLN 4.00

As at 31 December 2016, 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 2015.

The Bank has not issued preferred shares.

Both in 2016 and 2015, there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2016 and 31 December 2015, 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 2016 and during the period from the publication of the previous interim quarterly report for Q3 2016 until the day of the publication of this annual consolidated financial statements for 2016, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2016, supplementary capital was PLN 3,003,082 thousand (31 December 2015: PLN 3,001,525 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	31.12.2016	31.12.2015
Revaluation of financial assets available-for-sale	(214,843)	(163,613)

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 the other comprehensive and accumulated income in "Revaluation reserve" are reclassified to the income statement.

Other reserves

PLN'000	31.12.2016	31.12.2015
Reserve capital	2,356,107	2,349,602
General risk reserve	529,000	521,000
Net actuarial losses on specific services program valuation	(4,735)	(5,012)
Foreign currency translation adjustment	4,672	3,919
Other reserves, total	**2,885,044**	**2,869,509**

On 21 June 2016, the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2015, deciding to appropriate the amount of PLN 740 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 2015

At the meeting on June 21, 2016, 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 2015. The WZ resolved to appropriate the amount of PLN 611,486,928.00 to the dividend payment, which means that the dividend per one ordinary share is PLN 4.68. 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 4, 2016 (day of dividend) and the day of the dividend payment for July 21, 2016 (day of the dividend payment).

Declared dividends

On 14 March 2017, the Bank's Management Board adopted a resolution on the proposed distribution of profit for 2016. The Bank's Management Board has proposed to allocate the amount of PLN 591,887,988.00 for the dividend payment. The dividend has a cash character. This means that the dividend per share amounts to PLN 4.53. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 3 July 2017 and the dividend payment date was designated as 20 July 2017. 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 2016, 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	212,143	212,372	Up to 1 week	212,397

including interest

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

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

As at 31 December 2016 and as at 31 December 2015, assets sold through repo cannot be further traded.

In 2016, the total interest expense on repurchase agreements was PLN 6,495 thousand (in 2015: PLN 7,158 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 2016, 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	212,361	207,952	Up to 1 week	212,377
	205,922	181,933	Up to 3 months	178,886

including interest

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 2016 and 31 December 2015, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2016, the total interest income on reverse repurchase agreements was PLN 10,522 thousand (in 2015: PLN 36,175 thousand).

As at 31 December 2016, the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 208,106 thousand (as at 31 December 2015: PLN 988,102 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 under 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, where such offsetting has been recognized as legal effective.

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 legal effective offset under the master agreements in certain circumstances.

PLN'000	31.12.2016		31.12.2015	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	1,239,184	1,173,839	2,172,436	2,184,726
Value of collateral received/placed	(286,475)	(208,094)	(94,442)	(220,020)
Assets and liabilities subject to offsetting under the master agreement	**952,709**	**965,745**	**2,077,994**	**1,964,706**
Maximum amount of potential offset	(680,079)	(680,079)	(1,913,847)	(1,913,847)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**272,630**	**285,666**	**164,147**	**50,859**

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 is 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	31.12.2016		31.12.2015	
	Nominal value	Fair value	Nominal value	Fair value
Hedged instruments				
Debt securities available-for-sale				
Treasury bonds	4,604,396	4,794,696	4,431,015	4,657,996
Hedging instruments				
Derivative instruments				
Interest rate swaps - positive valuation	2,431,660	12,244	780,220	1,795
Interest rate swaps - negative valuation	2,172,736	39,897	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 2016

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	-	665,755	-	-	665,755	665,755
Amounts due from banks	18	-	587,087	-	-	587,087	587,071
Financial assets held-for-trading	19	3,781,405	-	-	-	3,781,405	3,781,405
Hedging derivatives	20	12,244	-	-	-	12,244	12,244
Debt securities available-for-sale	21	-	-	19,072,371	-	19,072,371	19,072,371
Equity investments valued at equity method	22	-	-	-	10,471	10,471	10,471
Equity investments available-for-sale	23	-	-	22,842	-	22,842	22,842
Amounts due from customers	24	-	18,860,053	-	-	18,860,053	18,878,719
		3,793,649	**20,112,895**	**19,095,213**	**10,471**	**43,012,228**	**43,030,878**
Financial liabilities							
Amounts due to banks	30	-	-	-	2,310,742	2,310,742	2,310,776
Financial liabilities held-for-trading	19	1,305,614	-	-	-	1,305,614	1,305,614
Hedging derivatives	20	39,897	-	-	-	39,897	39,897
Amounts due to customers	31	-	-	-	33,936,511	33,936,511	33,935,951
		1,345,511	**-**	**-**	**36,247,253**	**37,592,764**	**37,592,238**

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		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		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**

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 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 2016, 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 2016

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	2,613,789	1,167,616	-	3,781,405
derivatives		-	1,167,134	-	1,167,134
debt securities		2,604,546	482	-	2,605,028
equity instruments		9,243	-	-	9,243
Hedging derivatives	20	-	12,244	-	12,244
Debt securities available-for-sale	21	16,766,272	2,306,099		19,072,371
Equity investments available-for-sale	23	1,118	-	18,965	20,083
Financial liabilities					
Financial liabilities held-for-trading	19	208,305	1,097,309	-	1,305,614
short sale of securities		208,106	-	-	208,106
derivatives		199	1,097,309	-	1,097,508
Hedging derivatives	**20**	**-**	**39,897**	**-**	**39,897**

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		-	1,795	-	1,795
Debt securities available-for-sale	21	16,842,252	1,509,007	-	18,351,259
Equity investments available-for-sale		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		**-**	**112,383**	**-**	**112,383**

On the 31st of December 2016 the amount of financial assets classified to the Level III includes the share of PLN 18,965 thousand in Visa Inc. As at 31 December 2015 the amount includes value of the share in Visa Europe Limited in amount PLN 63,323 thousands.

In the first half of 2016 the Management Board of Bank Handlowy w Warszawie S.A. has received the information regarding final allocation of settlement transactions of the Visa Europe Limited takeover by Visa Inc. As a settlement transaction results Bank dispose its shareholding in Visa Europe Limited and received:

(a) 15,838,604.03 EUR in cash;

(b) 5,751 preference shares Visa Inc. Serie C;

(c) deffered payments paid after 3 years from the final transaction date.

Amount of deffered payments for Bank will be proportion to the Bank shares in whole payment amount at final transaction date will be 0.1220725995% in amounts of: EUR 1,220,726.00 (part of capital deffered payment) and EUR 152,424.73 (part of interest deffered payment).

Net value share after discount including as at 31 December 2016 is PLN 18,965 thousands.

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	1.01.-31.12.2016	1.01.-31.12.2015
	Financial assets available-for-sale	Financial assets available-for-sale
	Equity investments	Equity investments
As at January 2016	63,323	-
Derecognition valuation of shares	(63,323)	-
Recognition of valuation of shares	17,355	63,323
Valuation of shares	1,610	-
As at December 2016	**18,965**	**63,323**

In a final allocation of settlement transaction overtaking Visa Europe Limited by Visa Inc. In 2016 Bank recognize results on share sale and minority interest (AFS) in amount of PLN 92,975 which comprises cash received, deffered payment paid after 3 years from transaction date and valuation of preference shares Visa Inc.

In 2016 and 2015, the Group did not make any transfers between levels of financial instruments fair value according to the methods establish 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 2016, among all equity investments, where fair value could not be established, the Group sold the shares in Odlewnie Polskie S.A. The carrying/book value of sold shares in Odlewnie Polskie S.A. amounted to PLN 656 thousands and the profit of sales to PLN 2,938 thousands.

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 and the profit on sales to PLN 2,232 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 classifies to the third level of the fair valuefinancial 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 is generally approximates the carrying value

40. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2016, 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 2016.

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 2016.

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 2016, the Bank was, among others, a party to 18 court proceedings associated directly with derivative transactions that have not been legally terminated: in 12 proceedings the Bank acted as a defendant and in 6 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 2016 three cases ended legally binding and in favour of the Bank, regarding term financial transactions, where the Bank was defendat or plaintiff.

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 in 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. On April 28, 2016 the Bank has submitted extraordinary appeal to the Supreme Court, the Bank is awaiting for their considerations.

In 2016 there were no significant settlements due to the court case with final judgement.

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	31.12.2016	31.12.2015
Financial and guarantees liabilities granted		
Letters of credit	145,852	160,400
Guarantees granted	2,131,868	2,101,477
Credit lines granted	13,331,401	14,618,126
Underwriting other issuers' securities issues	1,246,100	1,138,000
Other guarantees	33,944	29,531
	16,889,165	**18,047,534**

PLN'000	31.12.2016	31.12.2015
Letters of credit by category		
Import letters of credit issued	144,829	160,065
Export letters of credit confirmed	1,023	335
	145,852	**160,400**

The Group makes provisions for financial and guarantees commitments granted. As at 31 December 2016, the provisions created for financial and guarantees commitments granted amounted to PLN 7,215 thousand (31 December 2015: PLN 10,451 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	31.12.2016	31.12.2015
Financial and guarantees liabilities received		
Finance	-	-
Guarantees	18,125,921	15,470,264
	18,125,921	**15,470,264**

41. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2016	31.12.2015
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	212,372	1,623,456
credit received	114,903	143,903
Amounts due to customers		
securities sale and repurchase agreements	-	188,505
	327,275	**1,955,864**

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

PLN'000	31.12.2016	31.12.2015
Assets pledged		
Debt securities held-for-trading	212,143	186,373
Debt securities available-for-sale	336,624	1,943,149
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	159,169	286,641
Amounts due from customers		
Stock market trading guarantee funds and settlements	211,360	186,007
	919,296	**2,602,170**

As at 31 December 2016, 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 183,022 thousand (31 December 2015: PLN 208,791 thousand) collateral against credit received: 153,602 thousand (31 Deceme-ber 2015:PLN 274,272 thousand) and as of 31 December 2015 the collateral against securities sold with repurchase agreement in the amount of PLN 1,460,086 thousand.

Debt securities held-for-trading as at 31 December 2016 constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

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.

41. 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 2016, the Bank maintained approx. 9,2 thousand securities accounts (31 December 2015: over 10,8 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	31.12.2016	31.12.2015
Less than 1 year	7,036	31,629
Between 1 and 5 years	57,859	65,787
More than 5 years	19,096	11,748
	83,991	**109,164**
Total annual rentals for contracts for an unspecified period of time	**1,117**	**2,522**

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 2016 amounted to PLN 29,835 thousand (in 2015: PLN 34,709 thousand).

The car leases are signed for 4 years. Lease payments are based on a fixed interest rate throughout the lease period. In 2016, total amount of leasing fees amounted to PLN 6,337 thousand (in 2015: PLN 4,253 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	31.12.2016	31.12.2015
Less than 1 year	296	1,864
Between 1 and 5 years	5,403	1,926
More than 5 years	6,163	-
	11,862	**3,790**
Total annual rentals for contracts for an unspecified period of time	**6,911**	**8,502**

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 2016 to PLN 9,009 thousand (in 2015: PLN 9,199 thousand).

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

44. Cash flow statement

Additional information:

PLN'000	31.12.2016	31.12.2015
Cash related items:		
Cash in hand	380,757	477,105
Nostro current account in Central Bank	283,587	1,693,132
Current accounts in other banks (nostro, overdrafts on loro accounts)	8,538	184,115
	672,882	**2,354,352**

45. Transactions with the key management personnel

PLN'000	31.12.2016		31.12.2015	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**719**	**-**	**1,103**	**-**
Deposits				
Current accounts	10,078	4,216	4,000	4,481
Term deposits	5,227	1,000	10,989	8,062
	15,305	**5,216**	**14,989**	**12,543**

As at 31 December 2016 and 31 December 2015, no loans or guarantees were granted to members of the Management Board or the Supervisory Board.

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

Within 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 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, 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 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	31.12.2016	31.12.2015
Receivables, including:	102,855	174,358
Placements	-	-
Liabilities, including:	1,242,047	4,338,922
Deposits	237,515	3,801,172
Loans received	6,999	41,337
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	823,853	1,337,826
Assets of derivative hedging instruments	11,912	1,795
Liabilities held-for-trading	669,388	1,307,730
Liabilities due to hedging derivatives	26,482	90,464
Contingent liabilities granted	264,347	287,814
Contingent liabilities received	68,290	103,458
Contingent transactions in derivative instruments (nominal value), including:	77,856,118	96,302,028
Interest rate instruments	68,946,263	79,711,721
FRA	14,745,600	12,641,270
Interest rate swaps (IRS)	33,717,144	45,355,519
Currency - interest rate swaps (CIRS)	19,310,382	20,628,005
Interest rate options	1,085,269	172,638
Futures contracts	87,868	914,289
Currency instruments	8,439,712	15,964,479
FX forward/spot	1,215,512	1,229,628
FX swap	4,549,027	10,916,585
Foreign exchange options	2,675,173	3,818,266
Securities transactions	195,488	184,842
Securities purchased pending delivery	102,785	93,569
Securities sold pending delivery	92,703	91,273
Commodity transactions	274,655	440,986
Swaps	208,760	406,492
Options	65,895	34,494

PLN'000	2016	2015
Interest and commission income	53,269	65,996
Interest and commission expense	64,824	61,563

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 2016 amounted to PLN 139,895 thousand (as at 31 December 2015: PLN (58,573) 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 Regulations 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 2016 and 2015 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	2016	2015
General administrative expenses	175,489	183,754
Other operating income	9,905	8,968

In 2016 the capitalization of investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 11,229 thousand (in 2015: PLN 11,301 thousand).

46. 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 amount resulting from Announcement of Minister of Labour and Social Policy regarding value of corresponding sum of additional contributions made by participator Plan in concerned year, based on articles 25 item 4a Act of 20 April 2004 regarding employee pension plan (Journal of Law of 2014 position 710 and 2015 position 1844). . The basic contribution is the Plan participant's income, from which he is obligated to pay the personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2000. no 90, item 416 with amendments).

Payments from the Plan are 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. 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 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	31.12.2016	31.12.2015
Provision for remuneration	61,217	66,424
Previsions for unused leave	14,698	19,789
Provision for employees' retirement and pension benefits	41,936	38,084
Provision for employees' equity compensation	18,034	21,546
Provision for workforce restructuring	4,171	680
	140,056	**146,523**

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 2016, 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%.

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

PLN'000	2016		2015	
	Provision for retirement allowances	Provision for jubilee payments	Provision for retirement allowances	Provision for jubilee payments
As at 1 January	**38,084**	**-**	**40,677**	**268**
Increases (due to):	6,178	-	3,478	-
Actuarial profit/loss on revaluation	(342)	-	(1,093)	-
Including those resulting from:				
Change of economic assumptions	(175)	-	(1,088)	-
Change of demographic assumptions	(1)	-	-	-
Experience adjustment	(166)	-	(5)	-
Remuneration cost	206	-	3,450	-
Interest cost	45	-	1,172	-
Past employment cost	274	-	-	-
Establishment of provisions	5,944	-	-	-
Other increases	51	-	(51)	-
Decreases (due to):	(2,326)		(6,071)	(268)
Past employment cost	-	-	(3,680)	-
Provisions utilisation	(2,326)	-	(2,391)	(268)
As at 31 December	**41,936**	**-**	**38,084**	**-**

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

In 2016, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 24,679 thousand (in 2015: PLN 25,286 thousand).

Employment in the Group:

FTEs	2016	2015
Average employment during the year	3,782	4,146
Employment at the end of the year	3,640	3,986

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) and the phantom shares of Bank Handlowy w Warszawie S.A. are offered to selected employees.

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 a right to options revoked at the moment of employment termination in the Citigroup, provided the termination of said contract "Capital Accumulation Program – Prospectus" for granted options. Deferred shares granted in 2012- 2015 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

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

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

A portion of the Variable Remuneration of persons covered by the Policy will be paid in tranches during in the next 3,5 years.

Variable Remuneration – Phantom shares	
Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	20 of January 2014 20 of January 2015 18 of January 2016 16 of January 2017
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	At least 6, 18, 30 and 42 months after grant date
Vesting date	At least 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 2014-2017 in relation to the award from 2014, and in 2015-2018 in relation to the award from 2015 and in 2016-2019 and in relation to 2016 reward and in 2017-2020 in respect of reward from 2017.
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 maturity 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 Management, the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

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

Variable Remuneration – Deferred Cash Award	
Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	20 of January 2014 20 of January 2015 18 of January 2016 16 of January 2017
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	At least 18, 30 and 42 months after grant date
Vesting date	At least 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 2014-2017 in relation to the award from 2014, and in 2015-2018 in relation to the award from 2015 and in 2016-2019 in relation to the award from 2016 reward and in 2017-2020 in relation to the award from 2017.
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 2014, 2015, 2016 and 2017. 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 a policy for the remuneration of key persons in the Bank Handlowy w Warszawie S.A specifying rules of payment for the members of the Board and other persons performing key functions, including persons with a significant influence over the Bank's risk profile. This policy implements the provisions related to formulation of the remuneration principles in banks in accordance with legal regulations, Principles of of Institutional Governance Rules for Supervised Institution adopted by the Polish Financial Supervision Auditory and Best Practices of WSE 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:

CAP Program	Grant date	Exercise price/stock price at grant date [USD]	Number of eligible employees	Number of options/ shares
1	19.02.2013	43.93	7	1,190
2	18.02.2014	49.66	8	3,107
3	16.02.2015	50.07	2	750
4	16.02.2016	37.05	1	802

Phantom Shares Program	Grant Date	Exercise price/stock price at grant date [PLN]	Number of eligible employees	Number of options/ shares
1	20.01.2014	104.86	24	21,111
2	20.01.2015	103.98	33	39,744
3	18.01.2016	72.71	50	62,739

		CAP Program	Phantom Shares Program
Period to acquire the title (in 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		At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)		6.15%	6.15%
Fair value of one instrument* (in USD)		60.04 (USD)	75.78 (PLN)

**Varies depending on the date of exercise*

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

	31.12.2016		31.12.2015	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	26,026	39.33	53,658	33.11
Allocated in the period	802	37.05	1,000	50.07
Transfers	-	-	3,250	43.89
Redeemed/expired in the period	20,978	-	31,882	-
At the end of the period	5,850	46.82	26,026	39.33

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

	31.12.2016		31.12.2015	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	136,611	102.23	132,876	100.24
Allocated in the period	137,763	72.21	116,484	103.98
Executed in the period	150,777	69.05	112,749	91.86
At the end of the period	123,597	88.00	136,611	102.23

On 31 December 2016, the book value of liabilities from the phantom share and CAP programs amounted to PLN 29,359 thousand (31 December 2015: PLN 30,686 thousand). The costs recognized in this respect in 2016 amounted to PLN 8,801 thousand (in 2015: 9,816 including the costs of SOP programs).

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, arising from the applied business strategy. 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.

The concept of risk management, taking into account the shared responsibility, is based on model of three lines of defense i.e.:

- Business Units engaged in activities connected with risk taking,
- Risk Units that establish standards for the risk management, processes defining and methodological support, risk acceptance as well as valuation, mitigation, control, monitoring and reporting of risk and Compliance,
- Internal Audit that provide an independent assessment of risk management processes and performance in the process control/control efficiency of these processes.

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, including operational risk strategy;
- approving a general level of the Group's risk appetite within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP),
- 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.

In addition, the Supervisory Board supervises the compliance of the Bank's policy related to risk-taking with the Bank's strategy and financial plan and performs the duties resulted from mentioned above strategies, regulations or other documents approved by the Supervisory Board.

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

- approves the organizational structure of the Group, with well-defined, transparent and consistent roles and responsibilities adequate for the size and risk profile, ensuring that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- defines the 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;
- establishes the principles of prudent and stable risk management which constitute, together with the ICAAP Document, the risk management strategy, including operational risk strategy;
- approves the acceptable risk level ("Overall risk appetite"), within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP) and is responsible for the development, implementation and updating of written policies, strategies and procedures for risk management, internal control system and internal capital assessment and review process as well as internal capital and policy related to variable components of remuneration.

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).

and is responsible for compile, implementation and update regulations, strategy and procedure in term of risk management, internal control and valuation of internal capital, review of valuation process and maintaining of internal capital and regulation of remuneration components.

Processes of managing of credit, market, operational risks are implemented in Bank based upon written policies and principles of identification, valuation, monitoring and risk control accepted by the Management Board or appropriately nominated Committees,

In the risk management area there are following Committees:

- Assets and Liabilities Management Committee,
- Risk and Capital Management Committee, including Operational Risk, Control and Compliance Commissions (BRCC)
- Risk Committee of Retail (Consumer) Banking Sector.

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, including interest rate risk in banking book;
- managing liquidity risk;
- managing operational risk,
- managing the equity process and model risk,
- model validation
- 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 their 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.

Significant Risks

The Bank manages all significant risks arising from the implementation of its business strategy. In the process of significant risks identification in 2016, the Management Board considered the following type of risk as significant:

- Credit risk and counterparty risk,
- Liquidity risk

• Market risk in the trading book,
• Interest rate risk in the banking book,
• Operational risk
• Compliance risk

The Bank monitors all the above types of risk. Due to portfolio characteristics in this chapter are presented principles related to management of credit risk (including counterparty risk and concentration), operational risk, liquidity risk, market risk in the trading book and interest rate risk in banking book.

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**, taking into account material concentration factors.

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. It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk (defined below). Operational Risk does not cover strategic risks 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, the Credit Policy for the Commercial Bank and credit policies for the Consumer 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, generally accepted risk level, credit portfolio performance and internal control results.

According to Bank activity, credit portfolio is divided by management process into two categories:

• credit exposures of clients managed on the classifiable basis (individual assessment)
• credit exposures of clients managed on delinquency basis (portfolio assessment).

Eligibility for either portfolio is managed based on classification (individual assessment) or delinquency (portfolio assessment) depends on the amount of aggregate exposure to the customer or group. In specific circumstances, each exposure might be managed on classifiable basis.

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 Bank's 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, 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 connected clients;
- At a portfolio level where Portfolio Risk Rating is calculated as the average rating of individual facility exposure ratings weighted with the size of exposure.

In case of the amount of exposure, the 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 dependents 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 the cooperation with customers, are responsible for monitoring the probability of obligor default.

Credit risk exposure is monitored and managed at two levels: (a) customer level, and (b) portfolio level.

Exposure monitoring and management at 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 the credit issues.

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

Risk mitigation

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 exposures 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 2016, 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 50,744 thousand (31 December 2015: PLN 42,387 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

In order to prevent adverse events resulting from excessive concentration, the Bank reduces the concentration risk by setting limits airing from law and concentration standards adopted internally, in order to ensure adequate diversification of risk in the portfolio. The Bank establishes General and specific limits to mitigate the risk of credit concentration, adequate to the approved risk appetite in the Bank as well as business strategy.

In its credit risk management, the Group defines exposure concentration limits related to the maximum exposure (as per internal reporting):

- against one obligor (including CCP)or a group of connected clients;
- against particular industries (based on the Group's internal classification);
- against entities in the same geographical region (country level - risk of geographical concentration)
- in a foreign currency;
- resulting from transactions generating counterparty credit risk (pre-settlement);
- against mortgage-secured exposures;
- against retail credit exposures of the Consumer Bank Risk Division,
- against entities belonging to the Capital Group of the Bankparticular products,
- particular products and currencies.

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 concentration resulting from indirect commitments – however, in accordance with the Bank's portfolio profile there were no limits set for this type of concentration.

Obligor exposure concentration risk

The Group limits the concentration of its exposure to a single customer or a group of customers with common ownership or organization. As at 31 December 2016, 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 7,221,065 thousand, i.e., 151% of equity (31 December 2015: PLN 6,199,373 thousand, i.e., 130%). In 2016 and 2015 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	31.12.2016			31.12.2015		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	564,798	500,185	1,064,983	360,285	700,722	1,061,007
CLIENT 2	1,000,000	-	1,000,000	-	-	-
GROUP 3	115,751	763,725	879,476	120,987	791,637	912,624
CLIENT 4	316,900	433,100	750,000	500,000	250,000	750,000
GROUP 5	14	641,332	641,346	125,146	502,862	628,008
GROUP 6	396,000	205,445	601,445	3	601,358	601,361
CLIENT 7	600,000	-	600,000	700,000	-	700,000
GROUP 8	431,855	156,716	588,571	447,882	84,545	532,427
GROUP 9	531,149	53,370	584,519	158,540	55,057	213,597
GROUP 10	187,415	323,310	510,725	200,692	173,763	374,455
GROUP 11	-	-	-	419,442	94,426	513,868
CLIENT 12	-	-	-	-	500,078	500,078
CLIENT 13	-	-	-	450,000	-	450,000
Total	**4,143,882**	**3,077,183**	**7,221,065**	**3,482,977**	**3,754,448**	**7,237,425**

**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 2016, 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 2016.

*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)*	31.12.2016		31.12.2015	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,122,906	17.3%	4,416,137	17.8%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,526,268	10.6%	2,661,946	10.7%
Financial intermediation, excluding insurance and pension funds	2,492,605	10.5%	1,842,100	7.4%
Retail trade, excluding retail trade in vehicles	1,313,366	5.5%	1,413,278	5.7%
Production of food and beverages	1,169,614	4.9%	1,290,045	5.2%
Metal ore mining	1,064,982	4.5%	1,061,007	4.3%
Production and processing of coke and petroleum products	936,473	3.9%	848,866	3.4%
Production of metal goods, excluding machines and equipment	615,380	2.6%	689,814	2.8%
Production of basic pharmaceutical substance, medicaments and other pharmaceutical products	600,599	2.5%	229,606	0.9%
Telecommunication	595,110	2.5%	438,956	1.8%
10 business sectors	**15,437,303**	**64.8%**	**14,891,755**	**60.1%**
Other sectors	**8,380,065**	**35.2%**	**9,899,052**	**39.9%**
Total	**23,817,368**	**100.0%**	**24,790,807**	**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	31.12.2016	31.12.2015
Gross amounts due from economic entities and banks		
Financial	2,264,443	2,713,279
Production	4,395,330	4,323,731
Services	4,411,674	1,034,349
Other	2,242,082	5,811,927
	13,313,529	**13,883,285**
Gross amounts due from individual customers	**6,697,209**	**6,436,445**
(see Note 18, 24)	**20,010,738**	**20,319,730**

Management of impaired exposures

Credit exposures with identified impairment or if there is a risk of impairment, are managed by specialized unit within Risk Management Sector. Depending on their economic or legal situation restructuring or collection actions are taken, according to law.

Group considers balance sheet credit exposure as impaired and related loss as recognized upon meeting the following two conditions:

- objective proofs (prerequisites) of impairment, arising out of one or more events, that occurred after initial balance sheet credit exposure recognition in financial books, have been identified and
- event (or events) causing the loss impacts future cash flow, associated with balance sheet credit exposure or out of group of balance sheet credit exposures, which can be reliably assessed.

The following events or evidences are identified, which might result in impairment:

- 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

and other events that may have a negative impact on future cash flows resulting from the balance sheet credit exposure.

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

Credit Risk Management employees 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.

Level of impairment write-offs on classifiable exposures that are above materiality thresholds is reviewed monthly. 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 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	31.12.2016	31.12.2016
Receivables due from Central Bank	17	3,587	1,693,132
Gross receivables due from banks	18	587,264	758,853
Gross receivables due from institutional customers	24	12,726,265	13,124,432
Gross receivables due from individual customers	24	6,697,209	6,436,445
Debt securities held-for-trading	19	2,605,028	4,692,560
Derivative instruments	19	1,167,134	2,267,132
Hedging derivatives	20	12,244	1,795
Debt securities available-for-sale	21	19,072,371	18,351,259
Other financial assets	29	219,105	204,430
Contingent liabilities granted	40	16,889,165	18,047,534
		59,979,372	**65,577,572**

The tables below present the portfolio grouped by receivables from customers with established impairment and receivables without impairment. The tables also present the details of impairment write-offs.

According to credit management process, Bank identifies classifiable portfolio (individual assessment) and based on portfolio classification (portfolio assessment).

Exposures without impairment are classified based on the internal risk ratings from 1 to 7, where risk category 1 is the best rating.

Exposures, classified based, with identified impairment have assigned internal risk ratings from 8 to 10.

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 investments levels of external credit rating agencies, which 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.

Commitment due to customers in terms of credit risk:

PLN'000	31.12.2016			31.12.2015		
	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	**300,772**	**11,873**	**-**	**337,170**	**11,349**	**-**
Impairment write-off	249,373	6,232	-	290,809	5,523	-
Net amount	**51,399**	**5,641**	**-**	**46,361**	**5,826**	**-**
Portfolio receivables						
Gross amount	**14,988**	**305,513**	**-**	**23,889**	**327,216**	**-**
Impairment write-off	9,840	218,241	-	11,203	212,903	-
Net amount	**5,148**	**87,272**	**-**	**12,686**	**114,313**	**-**
Not impaired receivables						
by risk rating						
Risk rating 1-4-	9,142,799	-	580,651	9,640,258	-	591,378
Risk rating +5-6-	3,071,547	-	6,613	2,915,852	-	167,475
Risk rating +7 and greater	196,159	-	-	207,263	-	-
by delinquency						
no delinquency	-	6,099,137	-	-	5,847,336	-
1-30 days	-	233,240	-	-	202,475	-
31-90 days	-	47,446	-	-	48,069	-
Gross amount	**12,410,505**	**6,379,823**	**587,264**	**12,763,373**	**6,097,880**	**758,853**
Impairment	19,426	60,309	177	19,478	45,490	1,750
Net amount	**12,391,079**	**6,319,514**	**587,087**	**12,743,895**	**6,052,390**	**757,103**
Total net amount	**12,447,626**	**6,412,427**	**587,087**	**12,802,942**	**6,172,529**	**757,103**

PLN'000	31.12.2016			31.12.2015		
	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
Impairment write-offs for impaired receivables						
Impairment write-offs for individual receivables	**249,373**	**6,232**	**-**	**290,809**	**5,523**	**-**
Impairment write-offs for portfolio receivables	**9,840**	**218,241**	**-**	**11,203**	**212,903**	**-**
IBNR provisions						
by risk rating						
Risk rating 1-4-	3,322	-	88	2,716	-	131
Risk rating +5-6	9,027	-	89	10,124	-	1,619
Risk rating +7 and greater	7,077	-	-	6,638	-	-
by delinquency						
no delinquency	-	21,992	-	-	16,993	-
1-30 days	-	15,227	-	-	11,083	-
31-90 days	-	23,090	-	-	17,414	-
	19,426	**60,309**	**177**	**19,478**	**45,490**	**1,750**
Total impairment write-offs	**278,639**	**284,782**	**177**	**321,490**	**263,916**	**1,750**

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

PLN'000	31.12.2016	31.12.2015
Receivables due from individual customers not impaired and without delay in payment, including:	6,099,137	5,847,335
receivables at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	365,690	344,435
receivables at least once have exceeded 90 days of delay in payment	5,498	5,824

Receivables not impaired by delinquency

PLN'000	31.12.2016			31.12.2015		
	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
Receivables with incurred but not recognized (IBNR) losses						
Regular receivables	12,396,864	6,099,137	587,264	12,716,875	5,847,335	758,853
Overdue receivables, including:	13,641	280,686	-	46,498	250,545	-
1-30 days	6,312	233,240	-	44,897	202,475	-
Gross amount	**12,410,505**	**6,379,823**	**587,264**	**12,763,373**	**6,097,880**	**758,853**

Structure of derivatives in terms of credit risk:

PLN'000	31.12.2016			31.12.2015		
	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-	96,107	6,141	1,053,076	157,940	2,176	2,071,473
Risk rating+5-6-	14,650	-	8,242	14,696	-	21,581
Risk rating +7 and greater	1,162	-	-	1,061	-	-
Total	**111,919**	**6,141**	**1,061,318**	**173,697**	**2,176**	**2,093,054**

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	31.12.2016		31.12.2015	
	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)	2,605,028	19,072,371	4,330,816	18,351,259
BBB+	-	-	361,744	-
Total	**2,605,028**	**19,072,371**	**4,692,560**	**18,351,259**

Other financial assets in the amount of PLN 219,108 thousand at the end of 2016 (PLN 204 430 thousand at the end of 2015) include receivables with delinquency over 90 days in the amount of PLN 1,709 thousand (PLN 1,824 thousand at the end of 2015).

Structure of granted contingent liabilities in terms of credit risk

PLN'000	31.12.2016		31.12.2015	
	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-	7,701,340	276,957	9,737,033	260,594
Risk rating+5-6-	2,828,993	9,024	2,342,319	5,531
Risk rating +7and greater	33,266	-	117,362	-
Total	**10,563,599**	**285,981**	**12,196,714**	**266,125**

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

PLN'000	31.12.2016	31.12.2015
Granted contingent liabilities due to individual customers, including:	6,039,585	5,584,695
contingent liabilities at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	319,995	307,782
contingent liabilities at least once have exceeded 90 days of delay in payment	1,584	1,748

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

PLN'000	31.12.2016	31.12.2015
Gross amount		
Receivables with recognized impairment, including:	633,146	699,624
Individual receivables	312,645	348,519
Portfolio receivables	320,501	351,105
Receivables without recognized impairment	19,377,592	19,620,106
Total gross amount	**20,010,738**	**20,319,730**
Impairment write-offs		
Receivables with recognized impairment, including:	483,686	520,438
Individual receivables	255,605	296,332
Portfolio receivables	228,081	224,106
Receivables without recognized impairment	79,912	66,718
Impairment write-offs in total	**563,598**	**587,156**
Net amount		
Receivables with recognized impairment, including:	149,460	179,186
Individual receivables	57,040	52,187
Portfolio receivables	92,420	126,999
Receivables without recognized impairment	19,297,680	19,553,388
Total net amount	**19,447,140**	**19,732,574**
Ratio of impairment write-offs to receivables with recognized impairment	**76.4%**	**74.4%**

"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.

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 Bank 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 Group monitors them at a total level, without further portfolio splits.

w tys. zł	As of	
	31.12.2016	31.12.2015
Receivables without recognized impairment, including	18,790,328	18,861,253
non-financial sector entities	17,099,400	16,827,402
Institutional customers	10,719,577	10,729,522
Individual customers	6,379,823	6,097,880
Receivables with recognized impairment, including:	633,146	699,624
non-financial sector entities	616,010	682,490
Institutional customers, including:	298,624	343,925
„forborne"	78,766	74,991
Individual customers, including:	317,386	338,565
„forborne"	24,273	31,979
Total gross amount, including:	**19,423,474**	**19,560,877**
non-financial sector entities	17,715,410	17,509,892
Institutional customers, including:	11,018,201	11,073,447
„forborne"	78,766	74,991
Individual customers, including:	6,697,209	6,436,445
„forborne"	24,273	31,979
Impairment write-off	**(563,421)**	**(585,406)**
On „forborne" receivables	(56,959)	(62,073)
Total net amounts due from customers, including:	**18,860,053**	**18,975,471**
„forborne" receivables	46,080	44,897

"Forborne" exposures by period of overdue

PLN'000	As of	
	31.12.2016	31.12.2015
Not past due	49,435	54,634
Past due, including:	53,604	52,336
Past due less than 30 days	2,125	2,635
Past due 31 - 90 days	6,576	4,565
Past due over 90 days	44,903	45,136
Total gross amount	**103,039**	**106,970**

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 the 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.

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 supervision.

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 business plans, especially in the customer deposits and loans area, as defined in annual budgets of particular business entities, as well as 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 –MAR/S2;

• Stress scenarios;

• Liquidity ratios;

• Market Triggers;

• Significant Funding Sources;

• Contingency Funding Plan.

Stress scenarios

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

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

• Concentration event;

• Highly Stressed Market Disruption ("S2");

• Local market event.

Contingency Funding Plan

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

The Contingency Funding Plan defines:

• Circumstances / symptoms of contingency events;

• Responsibilities for executing the action plan;

• Sources of liquidity, and in particular the principles of maintenance of a liquid assets portfolio to be used in the case of a liquidity contingency;

• Rules for assets disposal and balance sheet restructuring;

• Procedures for restoring customer confidence.

The levels of the cumulative liquidity gap in stress conditions and the level of liquid assets as at 31 December 2016 and 31 December 2015.

The cumulative liquidity gap as at 31 December 2016 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	19,726,589	563,913	417,261	-	24,615,552
Liabilities and equity	7,899,170	4,190,501	64,445	46,014	33,123,185
Balance sheet gap in the period	11,827,419	(3,626,588)	352,816	(46,014)	(8,507,633)
Conditional derivative transactions - inflows	10,159,711	3,370,020	6,341,294	4,169,771	17,095,176
Conditional derivative transactions - outflows	10,123,268	3,346,658	6,365,283	4,227,780	17,276,599
Off-balance-sheet gap in the period	36,443	23,362	(23,989)	(58,009)	(181,423)
Potential use of the granted credit lines	696,104	1,351,335	-	-	(2,047,439)
Cumulative gap	11,167,758	6,213,197	6,542,024	6,438,001	(203,616)

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)

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

PLN'000	31.12.2016	31.12.2015	Change
Liquid assets, including:	22,190,847	24,951,511	(2,760,664)
nostro account in NBP and stable part of cash	513,448	1,907,692	(1,394,244)
debt securities held-for-trading	2,605,028	4,692,560	(2,087,532)
debt securities available-for-sale	19,072,371	18,351,259	721,112
Cumulative liquidity gap up to 1 year	6,542,024	6,278,626	263,398
Coverage of the gap with liquid assets	Positive gap	Positive gap	-

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

As at 31 December 2016

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	**2,310,743**	**2,140,203**	**20,897**	**34,627**	**114,977**	**39**
Financial liabilities held-for-trading							
Short positions in financial assets	19	208,106	208,106	-	-	-	-
Amounts due to customers, including:	31	**33,936,512**	**32,905,272**	**748,865**	**264,652**	**17,651**	**72**
Deposits from financial sector entities	31	4,696,126	4,650,565	41,909	3,633	-	19
Deposits from non-financial sector entities	31	29,122,882	28,190,973	689,494	226,188	16,174	53
Other liabilities	31	117,504	63,734	17,462	34,831	1,477	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	750,866	27,175	38,182	121,727	365,330	198,452
Hedging derivatives	20	**39,897**	**-**	**-**	**-**	**18,549**	**21,348**
Unused credit lines liabilities	40	**13,331,401**	**11,333,111**	**49,282**	**312,309**	**1,128,776**	**507,923**
Guarantee lines	40	**2,165,812**	**2,165,812**	**-**	**-**	**-**	**-**
		52,743,337	**48,779,679**	**857,226**	**733,315**	**1,645,283**	**727,834**
Derivatives settled on a gross basis							
Inflows		40,526,382	10,536,899	3,070,489	6,175,871	10,721,726	10,021,397
Outflows		40,462,467	10,486,275	3,055,881	6,153,208	10,693,570	10,073,533
		63,915	**50,624**	**14,608**	**22,663**	**28,156**	**(52,136)**

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)**

MARKET RISK

The processes and organization of market risk management

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

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

Market risk management in the Group is based on:

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable management of the Bank as well 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 sale of assets or cancelling of obligations.

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

The table below presents the IRE measures for the Group as at 31 December 2016 and 31 December 2015. 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	31.12.2016		31.12.2015	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	35,351	176,849	27,809	60,086
USD	17,212	36,974	(14,093)	(70,011)
EUR	(3,349)	(20,704)	14,002	18,278

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	31.12.2016			31.12.2015			Total in the period 1.01.2016 - 31.12.2016		
	Total	Securities	IRS	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(1,491)	(2,637)	1,146	(2,730)	(4,123)	1,393	(2,161)	(1,053)	(3,457)
USD	(49)	(358)	309	(933)	(1,365)	432	(290)	(48)	(955)
EUR	(430)	(430)	-	(208)	(208)	-	(572)	(208)	(808)

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 2016 are presented in the table below:

PLN'000	31.12.2016	31.12.2016	In the period 1.01.2016 - 31.12.2016		
			Average	Maximum	Minimum
PLN	267	(66)	126	870	(576)
EUR	(123)	(63)	(118)	85	(395)
USD	9	96	(28)	109	(106)

Average exposures to the interest rate risk in the local currency in 2016 was higher comparing to the level from the previous year and amounted to PLN 255 thousand. Average exposure to the interest rate risk in EUR were higher than in 2015 (DV01 amounted to PLN 126 thousand, compared to PLN 82 thousand in the previous year). Average exposure in EUR were lower as in 2015 (DV01 amounted to PLN 32 thousand, compared to PLN 63 thousand in 2015). The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 870 thousand compared to PLN 875 thousand in 2015 and the position in EUR amounted to PLN 395 thousand compared to PLN 411 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 2016:

PLN'000	31.12.2016	31.12.2015	In the period 1.01.2016- 31.12.2016		
			Average	Maximum	Minimum
Currency risk	287	96	958	6,600	24
Interest rate risk	6,280	4,147	5,673	17,443	1,631
Spread risk	5,046	4,576	3,656	6,507	296
Total risk	8,333	6,061	7,210	18,737	3,493

The overall average level of the market risk of the trading portfolios was 17% lower in 2016 than the average level in 2015, representing an increase by over PLN 1,514 thousand, mainly as a result of lower exposures to interest rates . The maximum price risk level was PLN 18,737 thousand, compared to PLN 18,375 thousand in 2015.

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:

31.12.2016

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,164,418	4,545,892	17,289,321	15,769,761	138,086
USD	2,924,954	2,887,135	7,839,769	7,904,888	(27,300)
GBP	12,336	353,722	380,457	38,651	420
CHF	302,191	147,687	1,422,369	1,579,560	(2,687)
Other currencies	1,840	266,477	1,833,809	1,569,944	(772)
	6,405,739	**8,200,913**	**28,765,725**	**26,862,804**	**107,747**

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

31.12.2016

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*

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 subsidiary 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 enhanced 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 twice a year, determining the scale and types of operational risk that the Group is exposed to, risk concentration areas, 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.

Operational risk definition

Operational Risk is the risk of loss resulting from inadequate or deficient 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, Staffing risk, concentration risk and conduct risk.

Rules of operational risk identification

Each Group's Business Unit identifies 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.

Group's organizational units and the Independent Control and Operational Risk Department use in the operational risk identification processes, regular analysis of information generated using the tools of operational risk management (e.g. the appetite for risk, the target risk profile, KRI, data loss and operational risk incidents, issues and corrective action, the process of self-assessment, risk map, key projects, concentration risk areas and increasing the level of risk, scenario analysis, stress testing, changes in processes and products, operational risk attestations, information from internal and external reviews and audits, information reported to the Commissions and Committees).

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 its operational risk profile based on operational loss data and based on information gathered through utilized operational risk management tools.

The target operational risk profile, facilitating identification of concentration risk, 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.

Measurement and assessment

In the process of risk estimation Group applies differentiated methods of risk measurement and assessment. Risk assessment is the determination of the probability of occurrence and scale of potential future operational losses. Bank applies quantitative and quantitative methods for the purpose of risk assessment (e.g. appetite for risk, capital requirements, the target risk profile, KRI, data loss and operational risk events, issues and corrective actions, the process of self-assessment, risk map, key projects, concentration risk areas and increasing the risk level, scenario analysis, stress tests, changes in processes and products, attestations of operational risk, information from internal and external reviews and audits, information reported to the Commissions and Committees). Risk assessment analyses involve internal and external threats. Proper operational risk assessment enables adequate determination of risk profile and adequate risk management.

Risk tolerance framework, risk control and mitigation

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

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 an external 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 to inspections and assessment carried out by the internal audit.

Within the consolidated oversight operational risk data of Bank 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 effectiveness of operational risk management. The Supervisory Board is supported by Committees of Supervisory Board - Audit Committee, Risk and Capital Committee and Remuneration Committee.

Based on synthetic reports, presented periodically by the Management Board at least twice a year, prepared based on data resulting from operational risk monitoring, covering scale and types of operational risk the Group is exposed to, risk concentration areas, 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 making 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 6,790,450 thousand as at 31 December 2016 (as at 31 December 2015: PLN 6,850,656 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4,796,869 thousand (as at 31 December 2015: PLN 4,781,008 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	31.12.2016	31.12.2015
I	**Common Equity Tier 1 Capital**	**4,796,869**	**4,781,008**
II	**Total capital requirements, including:**	**2,199,922**	**2,238,956**
	credit risk capital requirements	1,687,217	1,685,320
	counterparty risk capital requirements	65,908	78,682
	Credit valuation correction capital requrements	63,927	34,059
	excess concentration and large exposures risks capital requirements	1,792	16,418
	total market risk capital requirements	74,357	86,544
	operational risk capital requirements	306,721	337,933
	Common Equity Tier 1 Capital ratio	**17.4%**	**17.1%**

* *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 2016, as well as in 2015, the Group complied with all the regulatory prudential standards on capital adequacy.

49. Subsequent events

On January 27th, 2017 the Bank placed the offer to purchase remaining performing leasing assets portfolio from Handlowy Leasing Sp. z o.o. The transaction will be executed with effect as of end of the first quarter 2017.

Signatures of Management Board Members

21.03.2017	Sławomir S. Sikora	President of the Management Board	
Date	Name	Position/function	Signature

21.03.2017	Maciej Kropidłowski	Vice-President of the Management Board	
Date	Name	Position/function	Signature

21.03.2017	David Mouillé	Vice-President of the Management Board	
Date	Name	Position/function	Signature

21.03.2017	Barbara Sobala	Vice-President of the Management Board	
Date	Name	Position/function	Signature

21.03.2017	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
Date	Name	Position/function	Signature

21.03.2017	Katarzyna Majewska	Member of the Management Board	
Date	Name	Position/function	Signature

21.03.2017	Czesław Piasek	Member of the Management Board	
Date	Name	Position/function	Signature

Report on activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2016

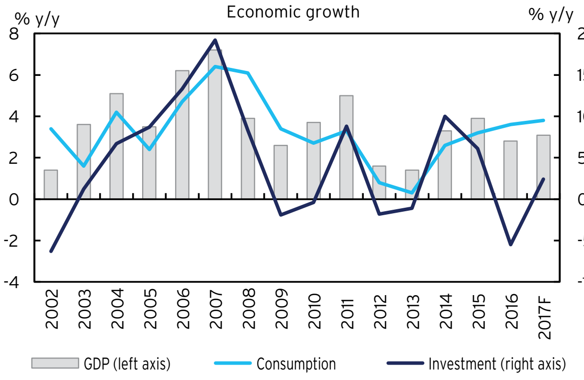
March 2017

In accordance with § 83 item 7 of the Ordinance of the Minister of Finance on current and periodical information provided by issuers of securities and the conditions for regarding information required by the law of non-member state as equivalent dated 19 February 2009 (Journal of Laws of 2014, item 133, as amended), report on activities of the Bank and the Group was prepared in the single report. The information in the report refer to the Group (including the Bank) or only to the Bank as specified in the individual chapters, tables or descriptions.

Contents

Poland's economy in 2016

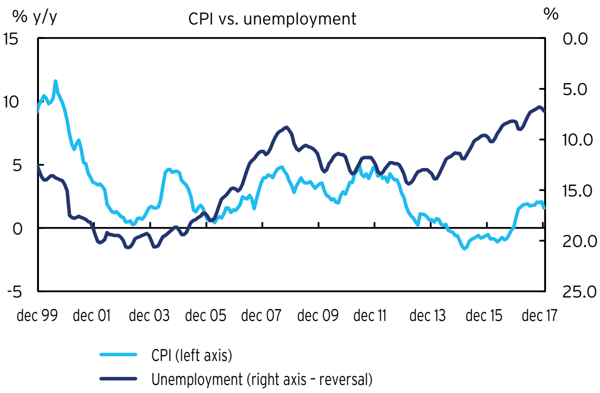
1. Main macroeconomic trends



Source: Chief Statistical Office, Citi Handlowy forecast

According to the data prepared by the Central Statistical Office, gross domestic product increased in 2016 by 2.8% y/y as against 3.9% y/y in 2015. Economic growth gradually slowed down in the first three quarters, surprising on the downside. Domestic demand remained the main growth driver, particularly household consumption, which increased by 3.6% y/y compared with 3.2% y/y in 2015. At the same time, however, last year saw a significant decline in investments by 5.5% y/y as against an increase of 6.1% in 2015. Foreign trade had a slight positive impact on the GDP, although trade did slow down and major trading partners experienced relatively stable GDP growth. The Polish economy still benefited from very low oil prices on the global markets. The relatively weak Polish zloty still provided support for exports.

Labor market conditions further improved and the unemployment rate declined to 8.3% at the end of 2016 compared to 9.8% at the end of 2015. Demand for labor remained solid, which contributed to an acceleration in nominal wage growth to 4.1% y/y (from 3.5%) and an acceleration in employment growth to 2.9% (from 1.1%). The number of new job offers per unemployed person rose to record high levels. Labor shortage and wage pressure indices rose to the highest levels for several years. Apart from labor market conditions, consumption was supported by cash transfers to households under the 500+ child allowance program.



Source: Chief Statistical Office, own calculations

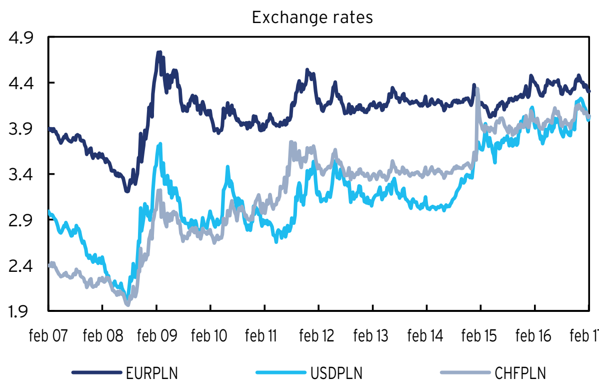
Prices of consumer goods and services in 2016 declined by 0.6% y/y on average after a decrease of 0.9% y/y in 2015. The main factor underlying the persistent deflation in Poland was the decline in fuel prices by 7.5% y/y, similarly as in the previous year. Additionally, declines in energy prices and prices in the healthcare, communications, leisure and culture categories contributed to deflation. Despite the strong household consumption and improving conditions on the labor market, the demand-driven pressure on price growth was very limited. Thus, inflation remained well below the inflation target set by the Monetary Policy Council.

Despite the fact that deflation persisted for almost the entire year and also despite the gradual economic slowdown, the Monetary Policy Council decided to keep interest rates at a record low level of 1.5%.

2. Money and forex

In 2016, the Polish zloty depreciated by ca. 3% against the euro and by ca. 7% against the U.S. dollar. The prospect of rate increases by the U.S. Federal Reserve Bank (Fed) contributed to the outflow of capital from emerging markets, leading to a temporarily increased volatility on the financial markets. At the same time, reduced appetite for risk was observed before the Brexit vote and before the U.S. presidential elections. Emerging market currencies clearly weakened, especially against the U.S. dollar, in response to election results in the United States and the anticipated changes in economic policy.

As a result of those developments, during the year the EUR/PLN rate rose from 4.42 to 4.26 while the USD/PLN increased by 7% from 4.18 to 3.90 and the CHF/PLN one rose by 5% to 4.12.



Source: Bloomberg

Money market rates remained relatively stable in 2016. WIBOR 3M stood at 1.73% at the end of the year against 1.72% at the end of 2015. After a clear decline at the beginning of the year, yields of 2-year bonds remained in an upward trend, supported by a gradual pickup in inflation. By the end of the year, 2-year yields rose to 2.04% from 1.62%. The yield on 10-year bonds rose to 2.94% from 3.63%, also as a result of global factors such as capital outflows from emerging markets in response to the outcome of the U.S. presidential election.

3. Capital market

2016 was a year of growth in the Polish stock market. The favorable climate primarily reflected the price recovery in global commodity markets. Additionally, the improvement in the domestic stock market (particularly in the SME segment) was related to the announced plan concerning revisions to the pension system – the consequences of the changes appear to be significantly less negative for the capital market in Poland than originally expected. The banks' shares were also buoyed by the publication of a less restrictive draft Act on foreign currency loans. On the other hand, the growth would be more pronounced were it not for the surprising result of the referendum on Great Britain's continued presence in the EU in the second quarter and the deterioration in sentiment towards domestic energy companies as a result of the introduction of measures that were unfavorable to minority shareholders (e.g. announcements of increases in the par value of shares, no declarations concerning the level of dividends to be paid).

Within the last 12 months, all major indices advanced. The WIG broad market index gained 11.4%. Mid-caps made very solid gains with mWIG40 advancing by 18.2%. The performance of blue chips was relatively weaker – they gained 4.8%. Among sector subindices, the commodity sector index stood out, gaining 79.7% y/y. High rates of return were also achieved by IT and fuel sector companies at 33.7% and 26.9% respectively. The largest decreases in relation to the level at the end of 2015 were suffered by companies from the chemical (-16.4%) and energy (-12.9%) industries.

Stock market indices, as at 31 December 2016

Index	2016	Change (%)	2015	Change (%)	2014
WIG	51,754.03	11.4%	46,467.38	(9.6%)	51,416.08
WIG-PL	52,583.91	10.9%	47,412.44	(10.2%)	52,805.46
WIG-div	1,039.29	8.4%	958.66	(16.8%)	1,151.73
WIG20	1,947.92	4.8%	1,859.15	(19.7%)	2,315.94
WIG20TR	3,296.32	7.9%	3,054.29	(17.0%)	3,680.89
WIG30	2,243.30	8.1%	2,075.51	(16.6%)	2,487.52
mWIG40	4,215.54	18.2%	3,567.05	2.4%,	3,483.45
sWIG80	14,259.47	7.9%	13,211.23	9.1%,	12,108.06
Sector sub-indices					
WIG-Banks	6,263.33	2.9%	6,086.60	(23.5%)	7,960.97
WIG-Construction	2,857.41	(2.4%)	2,926.28	36.5%	2,143.29
WIG-Chemicals	13,755.90	(16.4%)	16,458.51	44.6%	11,383.76
WIG-Developers	1,829.06	20.9%	1,513.35	12.9%	1,340.47
WIG-Energy	2,551.21	(12.9%)	2,928.40	(31.4%)	4,268.12
WIG-IT	2,155.40	33.7%	1,611.73	16.2%	1,386.48
WIG-Media	4,561.93	15.7%	3,942.07	2.6%	3,840.32
WIG-Oil & Gas	5,668.84	26.9%	4,468.32	32.2%	3,381.16
WIG-Food	4,154.32	21.4%	3,420.99	38.6%	2,468.65
WIG-Mining	3,516.44	79.7%	1,956.85	(43.8%)	3,481.62
WIG-Telecom	730.02	(9.6%)	807.99	(12.6%)	924.52

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

In the last year, shares of 19 new companies were listed on the main market of the WSE (including 7 transferred from the New Connect alternative market). The total value of new listings exceeded PLN 994 million (as against PLN 1.94 billion in the previous year), of which PLN 459 million was due to new issuances. Meanwhile, shares of 19 companies were delisted. At the end of 2016, 487 companies were traded on the WSE, including 53 foreign ones. Total market capitalization increased slightly by 3.0% y/y to PLN 1,12 billion, of which domestic companies accounted for 49.9%.

Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2016

	2016	Change (%)	2015	Change (%)	2014
Shares (PLN million)*	405,585	(10.0%)	450,574	(3.3%)	465,730
Bonds (PLN million)	2,851	57.7%	1,808	(8.8%)	1,983
Futures ('000 contracts)	15,195	(0.9%)	15,334	(14.8%)	18,004
Options ('000 contracts)	754	(13.9%)	876	(8.6%)	958

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

The domestic stock market recorded a decline in investment activity for the third year in a row. In 2016, the turnover in equities contracted by 10.0% y/y to PLN 405.6 billion.

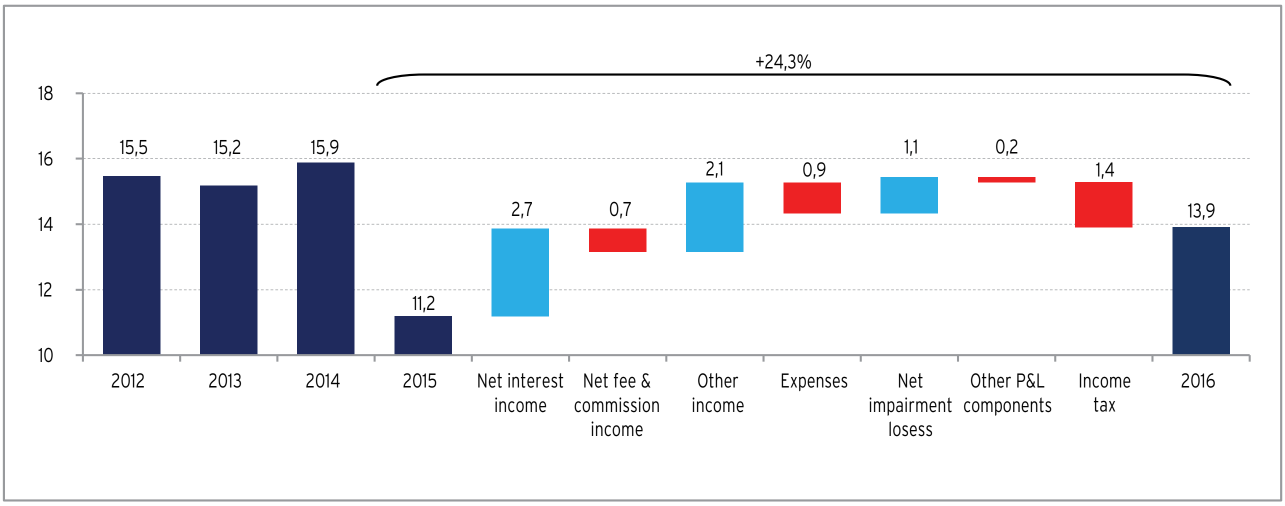
Conversely, there was a significant improvement in turnover in the debt securities segment. Compared to 2015, bond turnover grew by 57.7% and reached PLN 2.6 billion.

The volume of futures traded in the market decreased slightly by 0.9% to 15.2 million units.

Options also attracted less interest compared to 2015. The volume of trading in these instruments decreased by 13.9% y/y to 754,000 units.

4. Banking sector

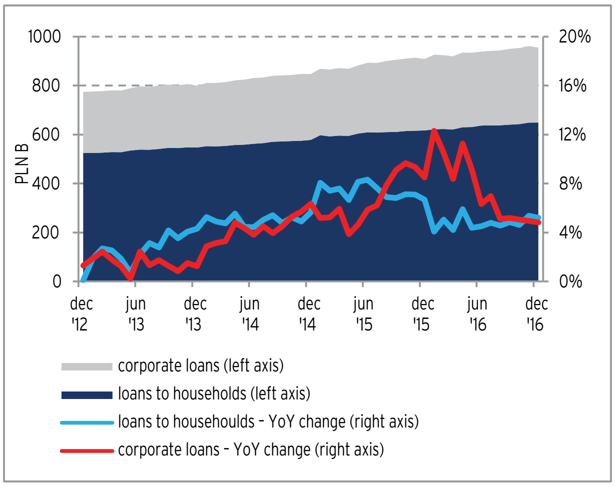
Net profit of the banking sector (PLN billion)



Source: Polish FSA, own calculations

According to PFSA figures, net profit of the banking sector in 2016 grew by about 24.3% (PLN 2.7 billion) compared to the last year, to the level of PLN 13.9 billion which is better than the previous year's result but still worse than the results achieved by banks from 2011 to 2015. The increase in net income was mainly driven by the improvement in the banks' net interest income (+7.6% y/y, PLN 2.7 billion) achieved through an increase in lending and reducing the cost of financing. Of significant importance for improving the result of the banking sector was also the increase in other income by 25.1% y/y (PLN 2.1 billion), which was primarily the result of the settlement of the acquisition of Visa Europe by Visa Inc. in June 2016. Polish banks posted income in excess of PLN 2 billion as a result of this transaction. Net fee and commission income, which was weaker than in the previous year (-5.4% y/y at PLN 722 million), had a negative impact on the results of the sector. As a result, the total income of the banking sector increased by PLN 4.1 billion to PLN 61.2 billion. Higher income was accompanied by higher operating costs (+2.8% y/y at PLN 943 million). The rapid increase of the net result was also caused by the one-time cost in excess of PLN 2 billion incurred in the fourth quarter of 2015 due to the need to make additional contributions to the Bank Guarantee Fund as a result of the bankruptcy of a co-operative bank. The efficiency of the sector as measured by the cost/income ratio improved. The ratio fell from 59% in 2015 to 56% in 2016. Net impairment write-downs were reduced by 11.7% y/y (PLN 1.1 billion), and a clear improvement in the quality of the loan portfolio was recorded as determined by the NPL ratio (by -0.4 p.p. y/y 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 1.0 p.p. to the level of 9.0%. The improvement of the ratio took place in the area of loans granted to large enterprises (-1.0 p.p. y/y to the level of 6.7%) as well as in loans to small and medium-sized enterprises (-1.0 p.p. y/y to the level of 10.7%). For the portfolio of loans granted to households the NPL ratio also improved, but to a much smaller extent than in the case of enterprises (-0.2 p.p. to the level of 6.1%). Improvement was reported in the consumer loan area (-0.4 p.p. to the level of 11.9%) while mortgage loans remained unchanged at 2.9%. Only real estate loans denominated in foreign currencies experienced a performance deterioration with the NPL ratio rising by 0.3 p.p. to 3.4%.

Loans granted to corporate and individual clients

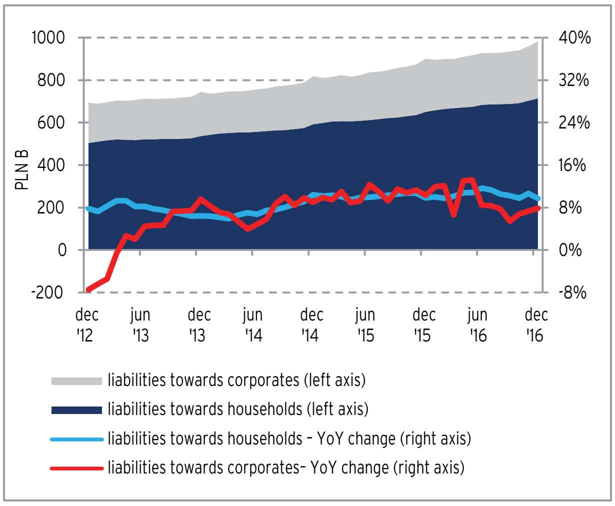


Source: National Bank of Poland, own calculations

In 2016, the banking sector recorded a gradual slowdown in the growth of lending to the non-financial sector, which fell to 5.1% y/y (PLN 52 billion) at the end of December 2016. The value of loans granted to corporates increased by 4.8% y/y and stood at PLN 306 billion as at the end of 2016. Taking into account the purpose of the loans contracted by enterprises, the highest growth was reported for investment loans (12.9% y/y), while current and real estate loans remained at almost unchanged levels (0.6% y/y and 0.4% y/y respectively). However, when broken down by their original tenors, the highest growth was recorded for long-term loans granted for periods of more than five years (9.1% y/y). Medium-term loans were just behind with their value rising by 7.7% y/y by the end of 2016. In contrast, short-term loans (up to 1 year) recorded a decrease in volume by 1.9% y/y.

In the category of loans granted to households, the increase in volume slowed down as well (5.2% y/y, an increase by PLN 32 billion to the level of PLN 649 billion). Consumer loans accelerated significantly (7.4% y/y, by PLN 10.9 billion to PLN 158 billion), while lending in the segment of real estate loans slowed down. The value of these loans taken out by households reached PLN 405 billion at the end of 2016, i.e. 4.8% (PLN 18.6 billion) more than at the end of 2015. The volume of real estate loans denominated in currencies other than Polish zloty dropped by 2.3% y/y (PLN 3.8 billion) while the PLN real estate loan market recorded a significant increase of 10.2% y/y (PLN 22.5 billion).

Corporate and individual deposits



Source: National Bank of Poland, own calculations

Corporate deposits increased by 7.9% y/y (by PLN 19.7 billion to PLN 270 billion). This growth was largely due to the still high growth rate of current deposits (16.3% y/y to PLN 170 billion). Time deposits decreased by 3.9% y/y (a decrease to PLN 100 billion) as at the end of December. Deposits of households also reported a significant increase in volume. Their balance grew by 9.7% y/y (by PLN 63.1 billion to PLN 714 billion). Just like for corporate deposits, the growth was mainly driven by current deposits (an increase of 17.9% y/y, by PLN 60.8 billion to PLN 400 billion) while time deposits remained almost unchanged at 0.7% y/y (by PLN 2.3 billion to PLN 314 billion).

In 2017, similar market conditions (low interest rates, bank tax) are expected as in 2016. Therefore banks will continue their activities aimed at adapting their business models to market conditions, which are characterized by high costs and strong competition in the high-margin product area.

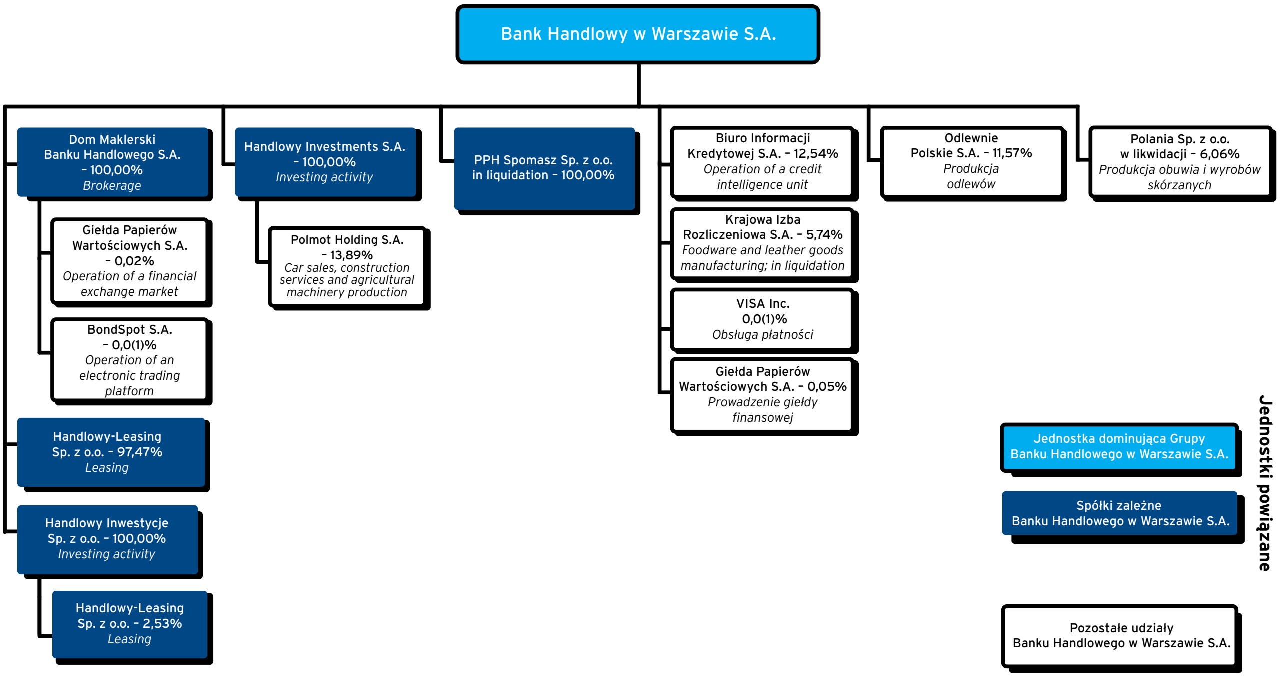
A significant risk to the banking sector is the still unsolved problem of mortgage loans denominated in foreign currencies. According to preliminary estimates, the solutions proposed so far, which would result in loan currency conversions, would generate costs that could endanger the stability of the banking system. On the other hand, an opportunity for banks will be the continued fast economic growth and the resulting stronger consumption, which may fuel demand for loans.

Recent years brought increased activity in the market of mergers and acquisitions in the financial sector. It appears that the composition of the banking sector in terms of ownership should not change significantly in the near future.

An important challenge facing the banking sector is also the situation in the credit union (SKOK) sector. Some unions are 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 to use even more funds deposited in the Bank Guarantee Fund. The obligation to supplement the funds used for this purpose will mostly burden the banking sector, which could adversely affect the cost levels of financial institutions in subsequent years.

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 2016; the Bank's share interest in each specified.



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	-	-	6,723,926
Dom Maklerski Banku Handlowego S.A. DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	109,224
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	35,899
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	18,802
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 2016*

*** 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	10,885

**** Pre-audit data*

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

Major Developments in 2016

In 2016, the Bank had to cope with a demanding market environment (slowdown in economic growth), difficult regulatory conditions and considerable volatility in financial asset valuations on global financial markets.

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

- Another year of **growth in lending activities** at 7% y/y (institutional clients: 9% and individual clients: 4%);
- **Growth in the balance in current accounts**, both for individual and institutional clients (growth in volumes by 17% and 7% y/y, respectively);
- **High efficiency** – key performance indicators remained at high levels, better than sector averages:
  - Return on assets (ROA) at 1.3% (sector: 0.8%);
  - Return on tangible equity (ROTE) at 12.0% (sector: 7.9%);
- **Double-digit growth in the operating margin** by 14% y/y;
- **Increase in net interest income** by 3% y/y, including on client activities by 9% y/y despite the persistent historically low interest rates; increase in interest margin on earning assets to 2.6%;
- Consistent **cost discipline** – decrease in operating expenses and in amortization and depreciation in 2016 by 6%;
- High level of the Bank's capital safety: high quality of assets and capitals, Tier 1 ratio at 17.4% (sector: 16.1%);
- **Transformation for innovation**
  - At the end of 2016, the Bank did not have any traditional bank outlets, reflecting the effective implementation of the strategy of building a **Smart Banking Ecosystem**. In 2016, the Bank introduced a new format for the physical distribution of banking products – **Smart Mini** outlets. Smart Mini uses a sales model based on mobility and can be moved to any location within two or three days, allowing the Bank to literally follow its clients;
  - The Bank has developed remote service processes for the most affluent clients from the Citigold and Citigold Private Client segments. The Bank has also introduced a new tool: **CitiPlanner for iPad**, which enables investment advice to be provided without the need to visit a physical branch;
  - Work is underway on the development of the new Citibank Online transaction service – Redesign+, which will be available to clients in the first quarter of 2017. **Redesign+** is built completely from scratch and is based on the clients' experiences. This is a key part of the strategy that will make the Bank the leader in the electronic banking area;
  - **Promoting online and mobile banking** among bank clients. The share of transactions executed via online or mobile banking amounted to 97.5% in 2016, which means an improvement of 2 p.p. in relation to 2015. At the same time, the number of mobile banking users grew by 14% y/y;
  - **Increase in credit card acquisitions through online campaigns**. Sales of credit cards increased by 47% compared to 2015, accounting for 33% of total Bank sales;
  - **The development of relational banking** for consumers continued. The Bank was ranked first in the Euromoney Private Banking survey.
- Leading position in the area of **financial markets**:
  - The Bank's strong position with respect to **FX trading volumes**. 80% of all transactions are conducted through CitiFX Pulse;
  - The first place in the prestigious **Ministry of Finance Dealers of Treasury Securities** ranking in 2017 (the fifth time in a row);
  - The Bank maintained its leading position in **depositary and custody activities**, with its share amounting to 40%;
  - DMBH is the leader in the **capital market** in terms of its share in turnover in stocks traded on the secondary market (10.3%);
  - DMBH reported an **increase in the number of investment accounts** by 18% y/y, primarily due to a steady growth in the number of brokerage service agreements for foreign markets and foreign exchange services on the CitiFX Pro platform;
- Transactional **banking successes**:
  - **Growth in current deposits by 10%** y/y thanks to a consistent focus on operating accounts;
  - Increase in the assets of the **supplier finance program** by 20% y/y;
  - Consistent improvements as part of the implementation of the **electronic platform for handling trade finance products** – 100% of financial transactions were processed on the basis of electronic applications;
  - **The introduction of the innovative solution** combining SEPA Direct Debits with the Citi FX Pulse currency exchange platform is ideal for companies that perform regular settlements with counterparties from the eurozone;
- **Leveraging global experience** in the execution of securitization and debt securities market transactions;
- Building value for shareholders – safety and stable position of the Bank confirmed by a consistent dividend policy. At the same time, the Bank also maintained its listing in the new edition of the RESPECT Index – the WSE index comprising the most socially responsible companies. Citi Handlowy is one of the two banks that have remained on the list since its first edition.

2. Summary financial data of the Bank and the Group

The financial data are presented both for the Bank and the Group in this report. Due to fact that Bank's activity contains major part of the Group's activity (total assets, equity and revenue of the Bank constitute respectively 99.7%, 99.0% and 99.0% of assets, equity and consolidated revenue of the Group), the financial results and statement of financial position presentation base on consolidated figures except where expressly indicated that presented data regard Bank data.

1 Lending excluding receivables under securities reverse repurchase transactions.

2 Tier 1 ratio for the sector represents the value for the third quarter of 2016, when drafting the report there were no data available as at the end of the fourth quarter of 2016.

PLN million	Bank		Capital Group	
	2016	2015	2016	2015
Total assets	45,091.6	49,442.3	45,209.9	49,506.8
Equity	6,723.9	6,782.5	6,790.5	6,850.7
Amounts due from customers*	18,795.3	18,848.0	18,860.1	18,975.5
Deposits *	33,914.4	31,453.6	33,819.0	31,275.5
Net profit	604.2	620.2	601.6	626.4
Earnings per ordinary share (PLN)	4.62	4.75	4.60	4.79
Dividend per ordinary share (PLN)**	4.53	4.68	4.53	4.68
Capital adequacy ratio	17.2%	16.8%	17.4%	17.1%

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*

*** As recommended by the Bank's Management Board on March 14, 2017.*

3. Financial results of the Bank and the Group in 2016

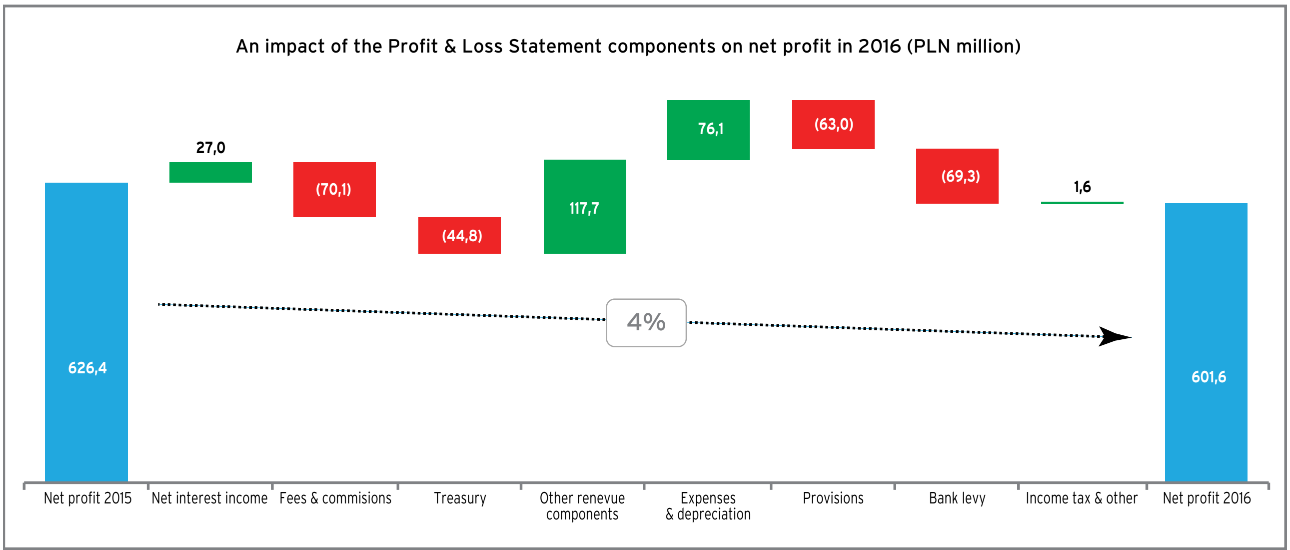
3.1 Income statement

The Group's net profit for 2016 reached PLN 601.6 million and was PLN 24.8 million (i.e. 4.0%) lower than the profit for the year 2015. The consolidated gross profit for 2016 was PLN 764.3 million and decreased by PLN 26.4 million (i.e. 3.3%) as compared with the previous year.

Selected income statement items

PLN '000	Bank		Capital Group			
					Change	
	2016	2015	2016	2015	PLN '000	%
Net interest income	999,870	962,710	1,003,571	976,600	26,971	2.8%
Net fee and commission income	526,401	594,059	561,229	631,350	(70,121)	(11.1%)
Dividend income	29,005	22,957	8,050	7,382	668	9.0%
Net income on trading financial instruments and revaluation	345,671	290,708	347,197	293,118	54,079	18.4%
Net gain on debt investment securities available-for-sale	44,746	145,246	44,746	145,246	(100,500)	(69.2%)
Net gain on capital investment instruments available-for-sale	95,913	2,232	95,913	2,232	93,681	-
Net gain on hedge accounting	9,553	7,949	9,553	7,949	1,604	20.2%
Net other operating income	8,617	(10,732)	11,205	(12,170)	23,375	-
Total income	**2,059,776**	**2,015,129**	**2,081,464**	**2,051,707**	**29,757**	**1.5%**
Overheads and general administrative expenses and depreciation, including	(1,177,990)	(1,251,601)	(1,202,223)	(1,278,297)	76,074	(6.0%)
Overheads and general administrative expenses	(1,108,862)	(1,183,516)	(1,132,301)	(1,207,875)	75,574	(6.3%)
Depreciation/amortization of tangible and intangible fixed assets	(69,128)	(68,085)	(69,922)	(70,422)	500	(0.7%)
Profit/loss on sale of other assets	104	102	116	102	14	13.7%
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	(48,759)	16,411	(45,768)	17,202	(62,970)	-
Share in net profits of entities valued at equity method	-	-	50	61	(11)	(18.0%)
Tax on some financial institutions	(69,311)	-	(69,311)	-	(69,311)	-
Profit before tax	**763,820**	**780,041**	**764,328**	**790,775**	**(26,447)**	**(3.3%)**
Income tax expense	(159,621)	(159,814)	(162,748)	(164,356)	1,608	(1.0%)
Net profit	**604,199**	**620,227**	**601,580**	**626,419**	**(24,839)**	**(4.0%)**

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

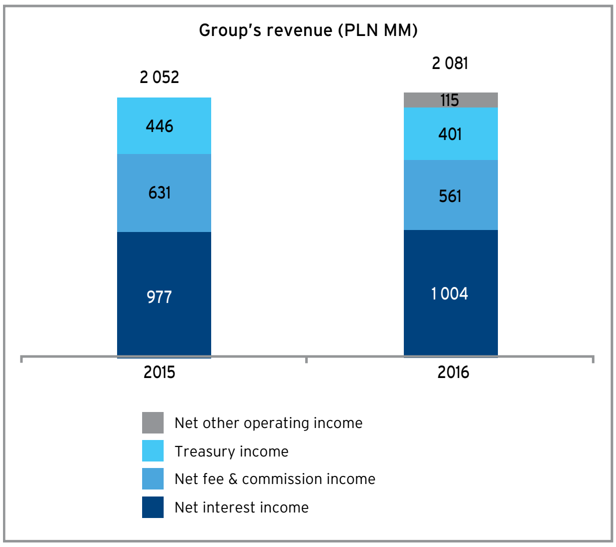


The following factors contributed to a change in net profit for 2016 as compared with 2015:

- Operating income (including net interest, fee and commission income, dividend income, the result on financial instruments held for trading 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 2,081.5 million as against PLN 2,051.7 million in 2015 – an increase of PLN 29.8 million (i.e. 1.5%) as against 2015 income, primarily due to the settlement of the acquisition of Visa Europe Ltd. by Visa Inc.;
- Operating and overhead expenses along with amortization and depreciation of PLN (1,202.2) million as against PLN (1,278.3) million in the previous year – a decrease in expenses by PLN 76.1 million (i.e. 6.0%). In 2016, the Bank made an additional contribution to the Bank Guarantee Fund for the payment of guaranteed funds to depositors of Bank Spółdzielczy (co-operative bank) in Nadarzyn amounting to PLN 5.6 million as against the PLN 63.6 million allocated by the Bank to the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa (craft and agriculture co-operative bank) in Wołomin in 2015. With the effect of additional charges excluded, the drop in expenses compared to 2015 was PLN 18.1 million (i.e. 1.5%);
- The result related to impairment write-downs on financial assets and provisions for financial and guarantee commitments granted stood at PLN (45.8) million in 2016 as compared to a positive result of PLN 17.2 million related to such impairment write-downs in 2015.

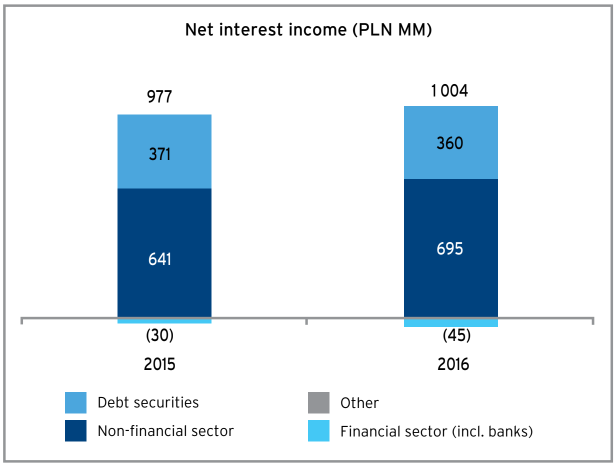
3.1.1 Revenue

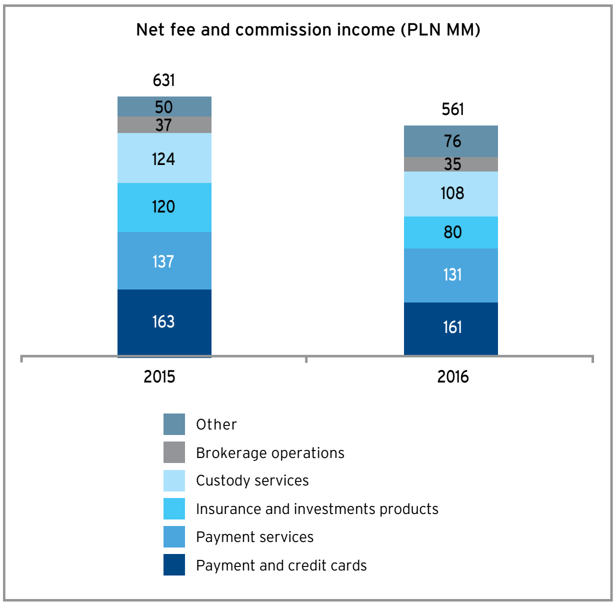
Operating income in 2016 was PLN 2,081.5 million compared to PLN 2,051.7 million in the previous year, an increase of PLN 29.8 million, i.e. 1.5%.



In 2016, operating income was affected by the following factors:

- net interest income equal to PLN 1,003.6 million as against PLN 976.6 million in 2015 – an increase by PLN 27.0 million (i.e. 2.8%) despite the prevailing record low interest rate environment. Interest income in 2016 increased by PLN 26.2 million (i.e. 2.1%) compared to 2015 and amounted to PLN 1,258.6 million. Receivables from clients were the main source of interest income, which reached PLN 837.3 million and was higher by PLN 59.0 million (i.e. 7.6%) compared to 2015 as a result of the positive contribution of loan margins. On the other hand, a decrease of PLN 25.3 million (i.e. 34.4%) was recorded in interest income on debt securities held for trading, mainly as a result of the lower average volume of securities. At the same time interest expenses in 2016 declined slightly by PLN 0.8 million (i.e. 0.3%) compared to 2015 and amounted to PLN 255.0 million;





- net fee and commission income equal to PLN 561.2 million as against PLN 631.4 million in 2015 – a decrease by PLN 70.1 million (i.e. 11.1%) was primarily the result of the drop by PLN 40.1 million (i.e. 33.5%) in net income on intermediation in the sale of insurance and investment products caused by the clients' lower interest in investment products as a result of less favorable market sentiment and new regulatory requirements related to group insurance. At the same time, net income on payment and credit cards declined by PLN 31.7 million (i.e. 19.5%);
- the result on financial instruments held for trading and revaluation amounted to PLN 347.2 million as against PLN 293.1 million in 2015 – an increase by PLN 54.1 million being primarily the consequence of a higher result on client activities;
- the result on investment debt securities amounted to PLN 44.7 million as compared to PLN 145.2 million in 2015 – down by PLN 100.5 million, mainly because of less favorable market conditions;
- net income on investment equity instruments available for sale amounted to PLN 95.9 million as against PLN 2.2 million in 2015, i.e. an increase of PLN 93.7 million due to the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. having been posted.

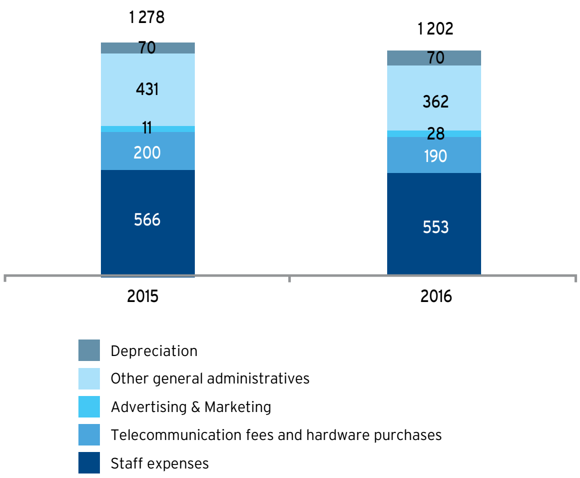
3.1.2 Expenses

General expenses & depreciation

PLN '000	Bank		Capital Group			
	2016	2015	2016	2015	Change	
					PLN '000	%
Personnel costs	**537,894**	**548,163**	**552,718**	**565,763**	**(13,045)**	**(2.3%)**
General administrative expenses, including:	**570,968**	**635,353**	**579,583**	**642,112**	**(62,529)**	**(9.7%)**
Telecommunication fees and IT hardware	183,938	195,089	189,622	200,464	(10,842)	(5.4%)
Building maintenance and rent	84,290	81,976	84,469	82,157	2,312	2.8%
Costs of external services, including advisory, audit, consulting services	54,872	65,219	55,356	66,253	(10,897)	(16.4%)
Total overheads	**1,108,862**	**1,183,516**	**1,132,301**	**1,207,875**	**(75,574)**	**(6.3%)**
Depreciation	69,128	68,085	69,922	70,422	(500)	(0.7%)
Total general expenses & depreciation	**1,177,990**	**1,251,601**	**1,202,223**	**1,278,297**	**(76,074)**	**(6.0%)**

Operating and overhead expenses, depreciation and amortization amounted to PLN 1,202.2 million as against PLN 1,278.3 million in the same period of the previous year – a decrease in expenses of PLN 76.1 million (i.e. 6.0%) resulting from a decrease of PLN 62.5 million (i.e. 9.7%) in operating and overhead expenses in connection with the additional contribution to the Bank Guarantee Fund made in 2015 and lower payroll costs as a result of a decrease in staffing.

General administrative expenses and depreciation (PLN MM)



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

Net impairment and provisions

PLN '000	Bank		Capital Group			
	2016	2015	2016	2015	Change	
					PLN '000	%
Net impairment losses incurred but not reported (IBNR)	(11 229)	6 548	(8 527)	6 727	(15 254)	-
Net impairment losses on loans and off-balance sheet liabilities	(39 243)	7 942	(39 179)	8 540	(47 719)	-
accounted for individually	17 999	(2 313)	18 008	(1 791)	19 799	-
accounted for collectively, on a portfolio basis	(57 242)	10 255	(57 187)	10 331	(67 518)	-
Net impairment losses on equity investments	(225)	(14)	-	-	-	-
Other	1 938	1 935	1 938	1 935	3	0,2%
Net impairment losses on financial assets and provisions for financial and guarantee commitments	**(48 759)**	**16 411**	**(45 768)**	**17 202**	**(62 970)**	**-**

The establishment of net impairment write-downs amounting to PLN 45.8 million as against the reversal of net write-downs in 2015 amounting to PLN 17.2 million – the deterioration of PLN 63.0 million concerned primarily the Consumer Bank (PLN 71.2 million of net impairment write-downs established in 2016 as against PLN 13.7 million reversed in 2015) as a result of the increase in the average age of the impaired loan portfolio as well as the increase in IBNR provisions caused by the growth of the loan portfolio. In the Corporate and Commercial Bank segment, a higher positive result was reported in the net impairment category, i.e. PLN 25.5 million as against PLN 3.5 million in 2015. This was the result of the recovery of written-off receivables from Commercial Bank clients.

3.1.4 Ratio analysis

The Group's efficiency ratios

	2016	2015
Return on equity (ROE)*	9.6%	10.0%
Return on assets (ROA)**	1.3%	1.3%
Net interest margin (NIM)***	2.2%	2.0%
Margin on interest-bearing assets	2.4%	2.3%
Earnings per share in PLN	4.60	4.79
Cost/income****	58%	62%
Non-financial sector loans to non-financial sector deposits	59%	61%
Non-financial sector loans to total assets	38%	34%
Net interest income to total revenue	51%	48%
Net fee and commission income to total revenue	27%	31%

** 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.*

The Bank's efficiency ratios

	2016	2015
Return on equity (ROE)*	9.8%	9.5%
Return on assets (ROA)**	1.3%	1.3%
Net interest margin (NIM)***	2.2%	2.0%
Earnings per ordinary share in PLN	4.62	4.75
Cost/Income****	57%	62%

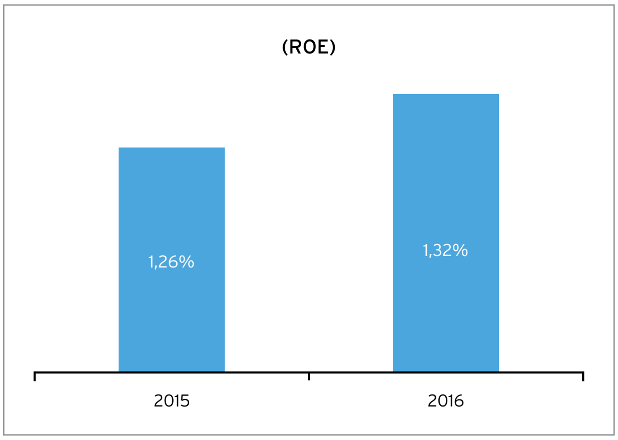
** Net profit to average equity (including net profit for the current year) calculated on a quarterly basis*

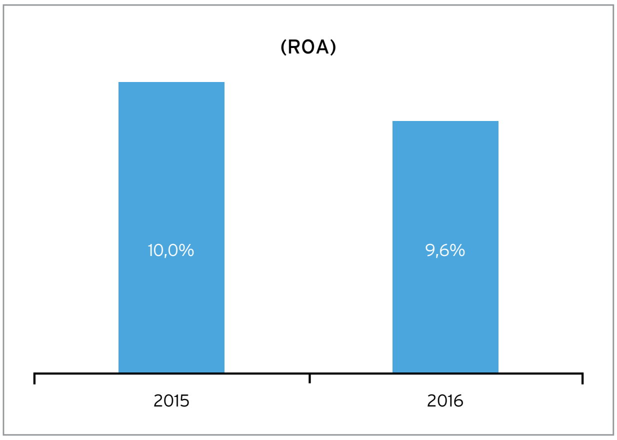
*** Net profit to average total assets calculated on a quarterly basis*

**** Net interest income to average total assets calculated on a quarterly basis*

***** Overheads, general administrative expenses, depreciation and amortization to operating income*

In 2016, returns on equity and assets of the Group remained at a higher level than the average in the banking sector, amounting respectively to 9.8% and 1.3%.





In the area of cost efficiency, the cost to income ratio fell to 57%, i.e. improved by 4 p.p. compared to the previous year. The main factor influencing the decrease in the cost to income ratio were lower overall operating expenses owing to a decrease in the cost of contributions to the Bank Guarantee Fund.

In 2016, the interest margin improved, increasing to 2.2% on total assets and to 2.4% on interest-bearing assets, mainly due to the rising loan margin.

The Bank maintained a safe position in terms of its capital adequacy, as evidenced by its capital adequacy ratio of 17.4%.

3.2 Consolidated statement of financial position

As at 31 December 2016, total assets of the Group reached PLN 45,209.9 million and were 8.7% lower than at the end of 2015.

Consolidated statement of financial position

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	tys. zł	%
ASSETS						
Cash and balances with central bank	665,755	2,170,237	665,755	2,170,237	(1,504,482)	(69.3%)
Receivables from banks	586,973	756,859	587,087	757,103	(170,016)	(22.5%)
Financial assets held for trading	3,772,162	6,959,692	3,781,405	6,987,284	(3,205,879)	(45.9%)
Hedging derivatives	12,244	1,795	12,244	1,795	10,449	582.1%
Debt securities available-for-sale	19,072,371	18,351,259	19,072,371	18,351,259	721,112	3.9%
Equity investments, held at equity value	-	-	10,471	7,768	2,703	34.8%
Equity investments	125,107	299,946	22,842	67,744	(44,902)	(66.3%)
Receivables from customers	18,795,341	18,847,968	18,860,053	18,975,471	(115,418)	(0.6%)
Property and equipment	332,336	342,941	342,971	354,080	(11,109)	(3.1%)
Intangible assets	1,349,810	1,370,392	1,350,861	1,371,879	(21,018)	(1.5%)
Receivables due to current income tax	12,911	14,351	13,901	20,673	(6,772)	(32.8%)
Asset due to deferred income tax	199,354	162,059	198,383	161,586	36,797	22.8%
Other assets	165,356	162,873	289,644	277,985	11,659	4.2%
Non-current assets available-for-sale	1,928	1,928	1,928	1,928	-	-
Total assets	**45,091,648**	**49,442,300**	**45,209,916**	**49,506,792**	**(4,296,876)**	**(8.7%)**
LIABILITIES						
Liabilities towards banks	2,303,627	6,922,125	2,310,742	6,963,561	(4,652,819)	(66.8%)
Financial liabilities held for trading	1,305,614	3,247,523	1,305,614	3,247,523	(1,941,909)	(59.8%)
Hedging derivatives	39,897	112,383	39,897	112,383	(72,486)	(64.5%)
Liabilities towards customers	34,031,947	31,764,349	33,936,511	31,586,303	2,350,208	7.4%
Provisions	22,068	22,814	22,856	23,494	(638)	(2.7%)
Other liabilities	664,569	590,640	803,846	722,872	80,974	11.2%
Total liabilities	**38,367,722**	**42,659,834**	**38,419,466**	**42,656,136**	**(4,236,670)**	**(9.9%)**
EQUITY						
Issued capital	522,638	522,638	522,638	522,638	-	-
Supplementary capital	2,944,585	2,944,585	3,003,082	3,001,525	1,557	0.1%
Revaluation reserve	(215,061)	(163,809)	(214,843)	(163,613)	(51,230)	31.3%
Other reserves	2,867,565	2,858,825	2,885,044	2,869,509	15,535	0.5%
Retained earnings	604,199	620,227	594,529	620,597	(26,068)	(4.2%)
Total equity	**6,723,926**	**6,782,466**	**6,790,450**	**6,850,656**	**(60,206)**	**(0.9%)**
Total liabilities and equity	**45,091,648**	**49,442,300**	**45,209,916**	**49,506,792**	**(4,296,876)**	**(8.7%)**

3.2.1 Assets

Gross receivables from clients

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	PLN '000	%
Non-banking financial entities	1,653,137	1,982,420	1,708,064	2,050,985	(342,921)	(16.7%)
Non-financial sector entities	10,903,632	10,938,259	10,917,310	11,005,152	(87,842)	(0.8%)
Individuals	6,696,898	6,436,390	6,697,209	6,436,445	260,764	4.1%
Public entities	100,889	68,291	100,889	68,291	32,598	47.7%
Other non-financial sector entities	2	4	2	4	(2)	(50.0%)
Total gross receivables from clients	**19,354,558**	**19,425,364**	**19,423,474**	**19,560,877**	**(137,403)**	**(0.7%)**

Net receivables from clients

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	PLN '000	%
Receivables from financial sector entities	1,635,327	1,965,150	1,690,254	2,033,715	(343,461)	(16.9%)
Receivables from non-financial sector entities, including:	17,160,014	16,882,818	17,169,799	16,941,756	228,043	1.3%
Corporate clients*	10,747,898	10,710,344	10,757,372	10,769,227	(11,855)	(0.1%)
Individuals, including:	6,412,116	6,172,474	6,412,427	6,172,529	239,898	3.9%
Unhedged liabilities	5,095,954	4,872,393	5,096,265	4,872,448	223,817	4.6%
Mortgage loans	1,316,162	1,300,081	1,316,162	1,300,081	16,081	1.2%
Total net receivables from clients	**18,795,341**	**18,847,968**	**18,860,053**	**18,975,471**	**(115,418)**	**(0.6%)**

** 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 value of net receivables from clients at the end of 2016 was PLN 18.9 billion, i.e. slightly lower compared to the end of 2015. After excluding receivables from securities purchased under reverse repurchase agreements, net receivables from clients increased by PLN 1.2 billion (i.e. 7.0%). Receivables from the non-banking sector increased both for institutional clients excluding reverse repo transactions (by PLN 1.0 billion, i.e. 8.7%; the increase was recorded for Corporate and Commercial Bank segments) and for consumers (by PLN 0.2 billion, i.e. 3.9%; the increase was across the board with the highest growth recorded for non-secured loans).

Debt securities portfolio of the Bank

PLN '000	As at		Change	
	31.12.2016	31.12.2015	PLN '000	%
Treasury bonds, including:	19,312,519	21,121,892	(1,809,373)	(8.6%)
covered bonds in fair value hedge accounting	4,794,696	4,657,996	136,700	2.9%
Bank bonds	66,866	1,888,873	(1,822,007)	(96.5%)
Bills issued by financial entities	58,299	33,054	25,245	76.4%
NBP bills	2,239,715	-	2,239,715	-
Total	**21,677,399**	**23,043,819**	**(1,366,420)**	**(5.9%)**

The volume of the debt securities portfolio decreased by PLN 1.4 billion (i.e. 5.9%) as at the end of 2016. This was the result of the reduction in positions in bank and Treasury bonds, partially offset by the increased position in National Bank of Poland money market bills.

3.2.2 Liabilities

Liabilities towards customers

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	PLN '000	%
Deposits of financial sector entities	**4,895,151**	**3,606,762**	**4,696,126**	**3,381,132**	**1,314,994**	**38.9%**
Deposits of non-financial sector entities, including	**29,019,292**	**27,846,825**	**29,122,881**	**27,894,409**	**1,228,472**	**4.4%**
Non-financial sector entities	15,361,011	15,966,147	15,372,571	15,967,016	(594,445)	(3.7%)
Non-commercial institutions	564,636	460,371	564,636	460,371	104,265	22.6%
Individuals	9,856,946	8,695,317	9,948,975	8,742,032	1,206,943	13.8%
Public sector entities	3,236,699	2,724,990	3,236,699	2,724,990	511,709	18.8%
Other liabilities	**117,504**	**310,762**	**117,504**	**310,762**	**(193,258)**	**(62.2%)**
Total liabilities towards customers	**34,031,947**	**31,764,349**	**33,936,511**	**31,586,303**	**2,350,208**	**7.4%**
Deposits of financial and non-financial sector entities, including:						
Liabilities in PLN	26,491,240	24,767,988	26,395,804	24,589,942	1,805,862	7.3%
Liabilities in foreign currency	7,423,203	6,685,599	7,423,203	6,685,599	737,604	11.0%
Total deposits of financial and non-financial sector entities	**33,914,443**	**31,453,587**	**33,819,007**	**31,275,541**	**2,543,466**	**8.1%**

The main item that finances the Group's assets are deposits from non-financial sector clients, which grew by PLN 1.2 billion, i.e. 4.4% in 2016. The increase was recorded for funds in the clients' current accounts as a result of our consistent strategy focused on operating accounts. The total increase in current deposits of non-financial sector clients amounted to over PLN 2.1 billion (i.e. 10.4%) of which about PLN 1.2 billion represented the increase in funds on consumer current accounts and PLN 0.9 billion – current deposits of institutional clients (including budgetary units).

3.2.3 Source and use of funds

PLN '000	Bank		Capital Group	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Source of funds				
Funds of banks	2,303,627	6,922,125	2,310,742	6,963,561
Funds of customers	34,031,947	31,764,349	33,936,511	31,586,303
Own funds with net income	6,723,926	6,782,466	6,790,450	6,850,656
Other funds	2,032,148	3,973,360	2,172,213	4,106,272
Total source of funds	**45,091,648**	**49,442,300**	**45,209,916**	**49,506,792**
Use of funds				
Receivables from banks	586,973	756,859	587,087	757,103
Receivables from customers	18,795,341	18,847,968	18,860,053	18,975,471
Securities, shares and other financial assets	22,969,640	25,610,897	22,887,089	25,414,055
Other uses of funds	2,739,694	4,226,576	2,875,687	4,360,163
Total use of funds	**45,091,648**	**49,442,300**	**45,209,916**	**49,506,792**

3.3 Equity and the capital adequacy ratio

The value of equity at the end of 2016 slightly decreased compared to the end of the previous year. With the decline in the revaluation reserve (by PLN 51.2 million), the total amount of equity at the end of 2016 was lower by PLN 35.4 million (i.e. 0.6%) than in the previous year.

Group's equity*

PLN '000	As at		Change	
	31.12.2016	31.12.2015	PLN '000	%
Issued capital	522,638	522,638	-	-
Supplementary capital	3,003,082	3,001,525	1,557	0.1%
Other reserves	2,356,107	2,349,602	6,505	0.3%
Revaluation reserve	(214,843)	(163,613)	(51,230)	31.3%
General risk reserve	529,000	521,000	8,000	1.5%
Other equity	(7,114)	(6,915)	(199)	2.9%
Total equity	**6,188,870**	**6,224,237**	**(35,367)**	**(0.6%)**

** 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 and the stand-alone statements of the Bank.

Group's capital adequacy ratio*

	PLN '000	Bank		Capital Group	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
I	**Common Equity Tier 1 Capital**	**4,727,393**	**4,719,986**	**4,796,869**	**4,781,008**
II	**Total capital requirements, of which:**	**2,204,888**	**2,252,301**	**2,199,922**	**2,238,956**
	credit risk capital requirements (II*8%)	1,698,683	1,706,398	1,687,217	1,685,320
	counterparty risk capital requirements	65,487	78,682	65,908	78,682
	Credit valuation correction capital requirements	63,927	34,059	63,927	34,059
	excess concentration and large exposures risks capital requirements	3,176	17,542	1,792	16,418
	total market risk capital requirements	74,245	84,287	74,357	86,544
	operational risk capital requirements	299,370	331,333	306,721	337,933
	Common Equity Tier 1 Capital ratio	**17.2%**	**16.8%**	**17.4%**	**17.1%**

** 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 2016, the Group's capital adequacy ratio stood at 17.4% and was slightly higher than as at 31 December 2015 (17.1%).

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2016

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 (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 client. 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.

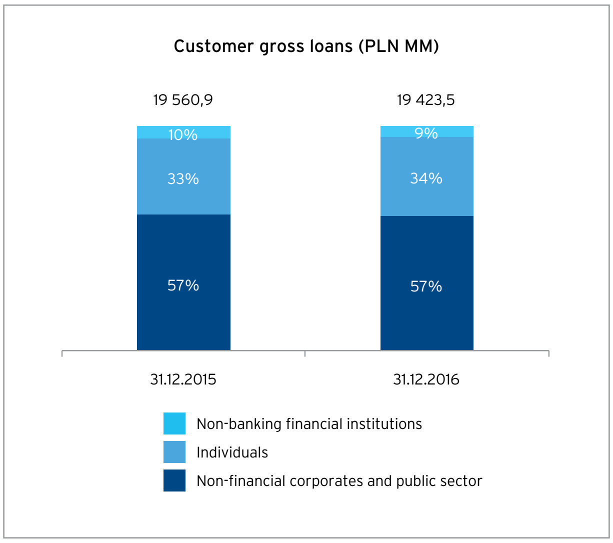
In 2016, the Group focused its credit risk management activities on:

- 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;
- efficient allocation of capital;
- improvement of management processes for the risk of the models used to measure credit risk;
- continued development of credit risk measurement methods.

Gross loans to customers of the Group

PLN '000	As at		Change	
	31.12.2016	31.12.2015	PLN '000	%
Loans in PLN	16,520,674	16,492,240	28,434	0.2%
Loans in foreign currency	2,902,800	3,068,637	(165,837)	(5.4%)
Total	**19,423,474**	**19,560,877**	**(137,403)**	**(0.7%)**
Loans to non-financial sector entities	17,715,410	17,509,892	205,518	1.2%
Loans to financial sector entities	1,708,064	2,050,985	(342,921)	(16.7%)
Total	**19,423,474**	**19,560,877**	**(137,403)**	**(0.7%)**
Non-bank financial entities	1,708,064	2,050,985	(342,921)	(16.7%)
Non-financial sector entities	10,917,310	11,005,152	(87,842)	(0.8%)
Individuals	6,697,209	6,436,445	260,764	4.1%
Public sector entities	100,889	68,291	32,598	47.7%
Non-commercial institutions	2	4	(2)	(50.0%)
Total	**19,423,474**	**19,560,877**	**(137,403)**	**(0.7%)**

As at 31 December 2016, gross credit exposure to clients amounted to PLN 19,423.5 million, representing a slight decrease of 0.7% compared to 31 December 2015. The largest part of the portfolio of receivables from clients represents loans to non-financial sector entities (56.2%), which decreased by 0.8% in 2016. Compared to 2015, receivables from individual clients increased by 4.1% and their share in total gross loan receivables amounted to 34.5%.



As at the end of December 2016 the currency structure of loans outstanding changed slightly as compared to the end of 2015. The share of foreign currency loans, which in December 2015 stood at 15.7%, decreased to 14.9% by December 2016. It should be stressed 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 foreign exchange 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 of the Group

PLN'000	31.12.2016			31.12.2015		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	564,798	500,185	1,064,983	360,285	700,722	1,061,007
CLIENT 2	1,000,000	-	1,000,000	-	-	-
GROUP 3	115,751	763,725	879,476	120,987	791,637	912,624
CLIENT 4	316,900	433,100	750,000	500,000	250000	750,000
GROUP 5	14	641,332	641,346	125,146	502,862	628,008
GROUP 6	396,000	205,445	601,445	3	601,358	601,361
CLIENT 7	600,000	-	600,000	700,000	-	700,000
GROUP 8	431,855	156,716	588,571	447,882	84,545	532,427
GROUP 9	531,149	53,370	584,519	158,540	55,057	213,597
GROUP 10	187,415	323,310	510,725	200,692	173,763	374,455
GROUP 11	-	-	-	419,442	94,426	513,868
CLIENT 12	-	-	-	-	500,078	500,078
CLIENT 13	-	-	-	450,000	-	450,000
Total	**4,143,882**	**3,077,183**	**7,221,065**	**3,482,977**	**3,754,448**	**7,237,425**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries of the Group*

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2016		31.12.2015	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,122,906	17.3%	4,416,137	17.8%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,526,268	10.6%	2,661,946	10.7%
Financial intermediation, excluding insurance and pension funds	2,492,605	10.5%	1,842,100	7.4%
Retail trade, excluding retail trade in vehicles	1,313,366	5.5%	1,413,278	5.7%
Production of food and beverages	1,169,614	4.9%	1,290,045	5.2%
Metal ore mining	1,064,982	4.5%	1,061,007	4.3%
Production and processing of coke and petroleum products	936,473	3.9%	848,866	3.4%
Production of metal goods, excluding machines and equipment	615,380	2.6%	689,814	2.8%
Production of basic pharmaceutical products and medicines and other pharmaceutical products	600,599	2.5%	229,606	0.9%
Telecommunication	595,110	2.5%	438,956	1.8%
10 business sectors	**15,437,303**	**64.8%**	**14,891,755**	**60.1%**
Other sectors	**8,380,065**	**35.2%**	**9,899,052**	**39.9%**
Total	**23,817,368**	**100.0%**	**24,790,807**	**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 attributed to two portfolios: the portfolio of impaired receivables and the portfolio of non-impaired receivables (IBNR). In the impaired portfolio, classifiable exposures that are considered significant are assessed individually while exposures that are not individually significant are collectively tested for impairment.

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

	As at		Change	
	31.12.2016	31.12.2015	PLN '000	%
With not recognized credit losses, including:	18,790,328	18,861,253	(70,925)	(0.4%)
non-financial sector entities	17,099,400	16,827,402	271,998	1.6%
institutional clients*	10,719,577	10,729,522	(9,945)	(0.1%)
individual clients	6,379,823	6,097,880	281,943	4.6%
With recognized credit losses, including:	564,597	625,591	(60,994)	(9.7%)
non-financial sector entities	547,461	608,457	(60,996)	(10.0%)
institutional clients*	230,075	269,892	(39,817)	(14.8%)
individual clients	317,386	338,565	(21,179)	(6.3%)
Dues related to matured derivative transactions	68,549	74,033	(5,484)	(7.4%)
Total loans to customers, gross, including:	**19,423,474**	**19,560,877**	**(137,403)**	**(0.7%)**
non-financial sector entities	17,646,861	17,435,859	211,002	1.2%
institutional clients*	10,949,652	10,999,414	(49,762)	(0.5%)
individual clients	6,697,209	6,436,445	260,764	4.1%
Impairment, including:	**(563,421)**	**(585,406)**	**21,985**	**(3.8%)**
dues related to matured derivative transactions	(60,057)	(67,678)	7,621	(11.3%)
Total loans to customers, net	**18,860,053**	**18,975,471**	**(115,418)**	**(0.6%)**
Provision coverage ratio**	**89.2%**	**82.8%**		
institutional clients*	87.3%	87.6%		
individuals	89.7%	78.0%		
Non-performing loans ratio (NPL)	**2.9%**	**3.2%**		

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

***Including IBNR provision.*

In comparison with 2015, the value of impaired loans decreased by PLN 61 million (i.e. 9.7%) which was the effect of improvements in the quality of both the portfolio of institutional clients and of the consumer portfolio and also of regularly writing off retail receivables with recognized credit losses from the balance sheet. At the same time the ratio of non-performing loans (NPL) decreased from 3.2% to 2.9% in 2016.

The Bank's 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 client's default and historical loss at default, impairment write-downs are calculated.

As at 31 December 2016 the impairment of the portfolio was PLN 563.4 million, which represented a decline by 3.8% from PLN 585.4 million at the end of December 2015. The decrease in impairment referred mainly to the clients for whom the Bank uses the individual approach (by PLN 40.7 million, i.e. 13.7%). There was an increase in impairment related to incurred but not reported losses (IBNR) (an increase by PLN 14.8 million, i.e. 22.7%). The provision coverage ratio remains stable at 2.9%.

Impairment of the customer loan portfolio

PLN '000	As at		Change	
	31.12.2016	31.12.2015	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	79,735	64,968	14,767	22.7%
Impairment of receivables	483,686	520,438	(36,752)	(7.1%)
accounted for individually	255,605	296,332	(40,727)	(13.7%)
accounted for collectively	228,081	224,106	3,975	1.8%
Total impairment	**563,421**	**585,406**	**(21,985)**	**(3.8%)**
Provision coverage ratio (total loans)	2.9%	3.0%		

1.3 Off-balance-sheet commitments

As at 31 December 2016, exposure from conditional commitments granted by the Group amounted to PLN 16,889.2 million, representing a decrease of 6.4% compared to 31 December 2015. The largest share in the total conditional commitments granted are still promised loan commitments (i.e. 79%), which decreased by PLN 1,286.7 million. 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	
	31.12.2016	31.12.2015	PLN '000	%
Guarantees	2,131,868	2,101,477	30,391	1.4%
Letters of credit issued	144,829	160,065	(15,236)	(9.5%)
Third-party confirmed letters of credit	1,023	335	688	205.4%
Committed loans	13,331,401	14,618,126	(1,286,725)	(8.8%)
Underwriting other issuers' securities issues	1,246,100	1,138,000	108,100	9.5%
Other	33,944	29,531	4,413	14.9%
Total	**16,889,165**	**18,047,534**	**(1,158,369)**	**(6.4%)**
Provisions for off-balance sheet liabilities	7,215	10,451	(3,236)	(31.0%)
Provision coverage ratio	**0.04%**	**0.06%**		

As at 31 December 2016, the total amount of collateral established on accounts or on assets of the Bank's borrowers amounted to PLN 3,993 million, whereas as at 31 December 2015 it stood at PLN 3,430 million.

2. External funding

The total external funding of the Bank (from clients and banks) stood at PLN 36.2 billion as at the end of 2016 and was PLN 2.3 billion (i.e. 6.0%) lower than at the end of 2015. The largest share of changes in external financing of the Bank's operations was attributable to funds obtained from banks, which decreased by PLN 4.7 billion (i.e. 66.8%) due to a decrease in time deposits and liabilities arising from securities sold under repurchase agreements. On the other hand, there was an increase in current accounts of non-banking sector clients by PLN 2.6 billion, i.e. 12.5% y/y. An increase in time deposits from banks was recorded as well: by PLN 4.0 billion (i.e. -88.7%).

Group's funding from banks

PLN '000	As at		Change	
	31.12.2016	31.12.2015	PLN '000	%
Current account	1,466,809	681,202	785,607	115.3%
Term deposits	503,520	4,460,693	(3,957,173)	(88.7%)
Loans and advances received	128,026	198,203	(70,177)	(35.4%)
Liabilities from securities sold under agreement to repurchase	212,372	1,623,456	(1,411,084)	(86.9%)
Other liabilities	15	7	8	114.3%
Total funding from banks	**2,310,742**	**6,963,561**	**(4,652,819)**	**(66.8%)**

Group's funding from customers

PLN '000	As at		Change	
	31.12.2016	31.12.2015	PLN '000	%
Deposits of financial sector entities				
Current accounts	671,625	226,438	445,187	196.6%
Term deposits	4,024,501	3,154,694	869,807	27.6%
	4,696,126	**3,381,132**	**1,314,994**	**38.9%**
Deposits of non-financial sector entities				
Current accounts, including:	22,301,469	20,194,711	2,106,758	10.4%
Corporate clients	10,895,348	10,454,683	440,665	4.2%
Individuals	8,280,082	7,074,422	1,205,660	17.0%
Public entities	3,126,039	2,665,606	460,433	17.3%
Term deposits, including:	6,821,412	7,699,698	(878,286)	(11.4%)
Corporate clients	5,041,859	5,972,704	(930,845)	(15.6%)
Individuals	1,668,893	1,667,610	1,283	0.1%
Public entities	110,660	59,384	51,276	86.3%
	29,122,881	**27,894,409**	**1,228,472**	**4.4%**
Total deposits	**33,819,007**	**31,275,541**	**2,543,466**	**8.1%**
Other liabilities				
Liabilities from securities sold under agreement to repurchase	-	188,505	(188,505)	(100.0%)
Other liabilities, including:	117,504	122,257	(4,753)	(3.9%)
Cash collateral	80,622	99,207	(18,585)	(18.7%)
	117,504	**310,762**	**(193,258)**	**(62.2%)**
Total funding from customers	**33,936,511**	**31,586,303**	**2,350,208**	**7.4%**

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 2016

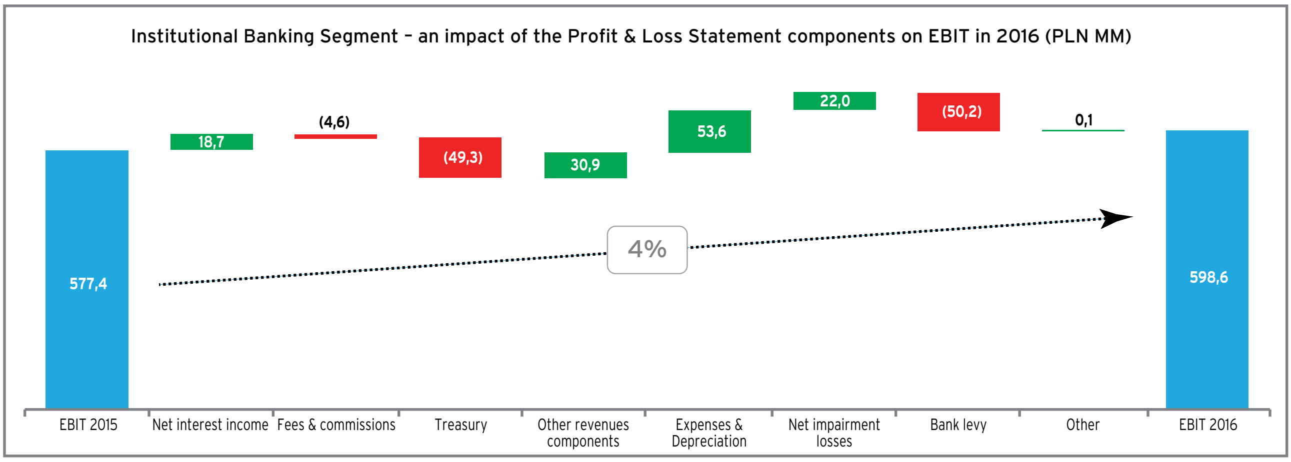
in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	2.93	1.35	1.80	9.50	4.00	-
Debt securities	1.94	0.11	1.13	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	1.30	0.36	0.57	0.74	0.10	0.22

As at 31 December 2015

in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	2.91	1.41	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

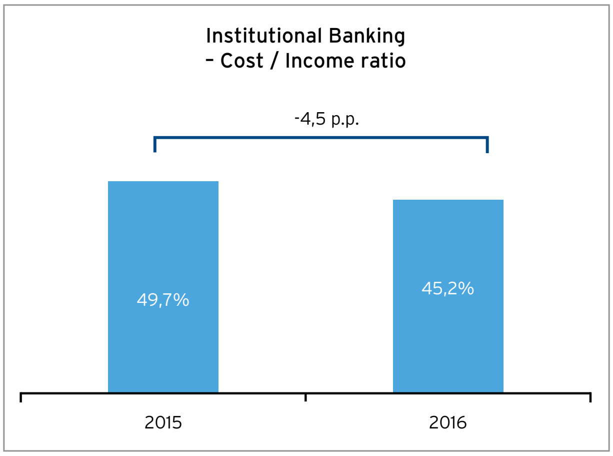
4. Institutional Banking Segment

4.1 Summary of segment's results



In 2016, the Corporate and Commercial Bank segment recorded an increase in gross profit of PLN 21.2 million, i.e. 3.7%. The profit before tax of the Corporate and Commercial Bank segment in 2016 compared to the previous year was driven mainly by the following factors:

- Net interest income at PLN 439.6 million as against PLN 420.9 million in 2015 – an increase by PLN 18.7 million which is mainly a consequence of higher net interest income on client activities owing to higher interest margins;
- Net fee and commission income in the amount of PLN 275.3 million as compared to PLN 279.9 million in 2015, caused, inter alia, by a decrease in commission on brokerage activities (the result of falling turnover on the Warsaw Stock Exchange);
- The result on financial instruments held for trading and revaluation of PLN 315.6 million – an increase by PLN 49.6 million y/y, being primarily the consequence of a higher result on client activities;
- The result on investment debt securities amounting to PLN 44.7 million – the result is lower by PLN 100.5 million compared to the previous year, mainly owing to less favorable market conditions;
- Net income on investment equity instruments available for sale amounted to PLN 29.4 million, i.e. an increase of PLN 27.2 million y/y due to the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. having been posted;
- Operating expenses and amortization and depreciation in the amount of PLN (514.0) million compared to PLN (567.6) million in 2015 – a decrease of PLN 53.6 million which has mainly been the result of the one-time contribution to the Bank Guarantee Fund intended for the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa (co-operative bank) in Wołomin;
- The cost to income ratio decreased by 4.5 p.p. since there was a significant decline in overhead expenses;



- A higher positive result was reported in the net impairment write-down category, i.e. PLN 25.5 million as against PLN 3.5 million in 2015; this was the result of the recovery of written-off receivables from Commercial Bank clients.

4.2 Institutional Bank

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

At the end of 2016, the number of institutional clients (including strategic, global and corporate banking clients) amounted to 6,200, a decline of 9% compared to 2015 when the number of clients reached 6,800. As part of the Commercial Bank (small and medium businesses, large enterprises and the public sector) the Group provided services to 3,800 clients as at the end of 2016 (which means a decrease of 16% as compared to 4,500 clients at the end of 2015).

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

Assets*

PLN million	31.12.2016	31.12.2015	Change	
			PLN million	%
Enterprises*, including:	4,669	4,433	236	5%
SMEs	1,873	1,797	76	4%
Large enterprises	2,796	2,636	160	6%
Public Sector	92	95	(3)	(3%)
Global Clients	2,389	3,370	(981)	(29%)
Corporate Clients	5,016	3,379	1,637	48%
Other**	7	12	(5)	(42%)
Total Institutional Bank	**12,173**	**11,289**	**884**	**8%**

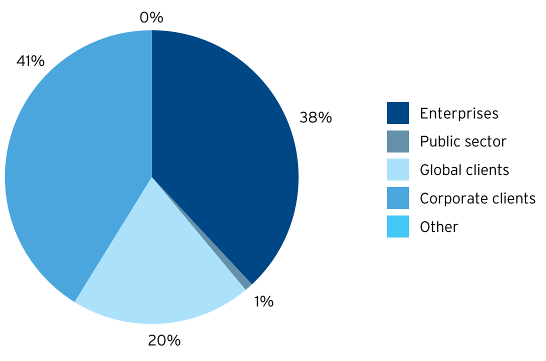
Liabilities

PLN million	31.12.2016	31.12.2015	Change	
			PLN million	%
Enterprises*, including:	3,876	3,702	174	5%
SMEs	2,428	2,605	(177)	(7%)
Large enterprises	1,448	1,097	351	32%
Public Sector	3,823	3,181	642	20%
Global Clients	9,031	9,442	(411)	(4%)
Corporate Clients	6,225	5,368	857	16%
Other**	86	197	(111)	(56%)
Total Institutional Bank	**23,041**	**21,890**	**1,151**	**5%**

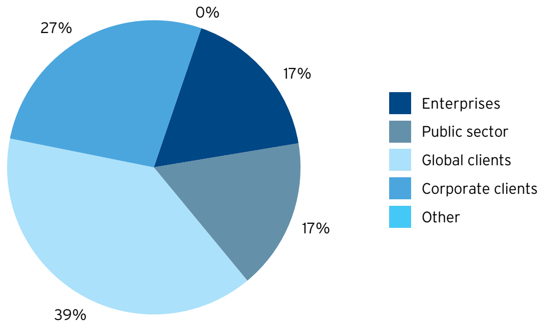
** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).*

**** 'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o., who are not clients of the Bank.*

Structure of the Institutional Bank assets as of 31.12.2016



Structure of the Institutional Bank liabilities as of 31.12.2016



Key transactions and successes of the Institutional Bank in 2016:

- As part of the financing for the Bank's Corporate Client segment:
  - The Bank served as the Joint Lead Manager in two benchmark issues of PLN bonds for a financial sector client. In April 2016, 5-year bonds amounting to PLN 1.75 billion were successfully issued, and in September 2016, 10-year bonds were issued amounting to PLN 1.1 billion;
  - The Bank completed the securitization of receivables under consumer loans for a foreign bank operating in the Polish; the transaction amounted to PLN 1 billion in the form of a loan;
  - The Bank, in cooperation with another bank, signed an agreement with the leader in the Polish postal services market concerning a short- and medium-term bond issuance program amounting to up to PLN 700 million. The Bank acted as, inter alia, Arranger and Dealer;
  - The Bank, together with a consortium of other banks, signed a loan agreement with a leading radio diffusion and radio communication operator in Poland, amounting to PLN 1.7 billion; BHW's share in financing was PLN 190 million;
  - The Bank, in cooperation with other banks, signed a revolving loan agreement with one of the largest manufacturers of chemical raw materials in Poland, amounting to EUR 220 million; the Bank's share in financing was EUR 30 million;
  - The Bank granted 3-year financing amounting to PLN 150

million to a client from the pharmaceutical industry;
- The Bank carried out four transactions to hedge long-term bonds for a public sector client (USD/EUR hedge with a tenor of 10 years);
- Together with Dom Maklerski Banku Handlowego w Warszawie S.A. (brokerage house) the Bank was selected as Joint Lead Arranger for a public issuance of bonds by a client who organizes trading in financial instruments;
- The Bank issued 550 business cards to one of the leading clients from the insurance industry;
- The Bank established a new relationship with a client from the investment fund industry; the Bank acts as a depositary.

• The Bank closed, among others, the following transactions with clients from the Global Subsidiaries segment:
- Signing a loan agreement with one of the major manufacturers from the FMCG sector to increase the amount of a 3-year loan from PLN 100 million to PLN 200 million and of an authorized overdraft from PLN 60 million to PLN 100 million as part of a successful tender for cooperation in the area of bank account and financing services;
- Granting loans: PLN 200 million for a leading company from the trade sector, PLN 110 million for a leading company from the automotive industry, PLN 50 million for a major client from the alcohol beverage industry, PLN 50 million for a leading company from the real estate industry and EUR 6 million for a company from the leasing industry;
- Signing agreements concerning supplier financing with two strategic companies from a major German energy group present in Poland (PLN 30 million) and with a leader of the FMCG market;
- Establishing new relationships with: a company from the real estate industry; with companies from the chemical industry concerning bank account products and FX transactions, with one of the leaders from the packaging industry and from the automotive industry concerning comprehensive banking services; with a company from the IT industry, one of the largest providers of hotel booking services in the world concerning bank account products and Direct Debit;
- Successful tendering for providing comprehensive banking services to a major player in the cigarette sales market and one of the leaders in the alcoholic beverage industry and also winning consecutive escrow accounts related to servicing the investment projects of one of the leaders in the construction industry;
- Successful tendering for the handling of cash deposits for one of the leaders from the retail industry and for the introduction of direct debits for one of the leaders from the telecommunications industry;
- BHW now provides banking services to an Emerging Market Champion from the automotive industry and for a client from the retail industry that used to be provided by other banks;
- Signing a contract for servicing an escrow account for one of the largest clients from the automotive industry;
- Successful tendering for the issuance of business cards (400 pieces) to a client from the automotive industry and initiating cooperation in the FX services area.

• The Bank granted loans to the following clients from the Commercial Bank segment: a long-term authorized overdraft amounting to PLN 120 million to a leading manufacturer of ceramic tiles; a long-term loan amounting to PLN 95 million to a producer of coke, coal derivatives and coal gas; an operating loan amounting to PLN 90 million to a producer of cold-rolled flat steel products; increased by PLN 50 million the amount of a revolving loan granted against a guarantee for the construction of other civil and hydraulic engineering structures; a PLN 40 million revolving loan against a guarantee for the manufacturing of buses;

• Since the beginning of 2016, Commercial Bank has continued its series of meetings with clients (Market Pulse – Macroeconomic Meetings). The Sub-Sector of Financial Markets together with the Office of the Bank's Chief Economist presented macroeconomic forecasts for the global and Polish economies to clients. At the same time, the CyberSecurity Global Workshop was held, which was devoted to cybersecurity and secure electronic payments;

• Additionally, the Bank continued its interactive financial risk management workshops (CitiFX Hedge Game), which are a unique proposition in the Polish market, enabling clients to learn how to efficiently manage financial risk using derivative instruments;

• Acquisition of clients: the Commercial Banking segment acquired 292 new clients in 2016, including 49 Large Enterprises, 231 Small and Medium-Sized Enterprises, and 12 Public Sector entities. The Bank acquired 29 client relations in the Strategic Clients and Global Clients segment.

4.3 Treasury Division Operations

In December, the Bank won the competition of the Ministry of Finance for Treasury Securities Dealers (TSDs) in 2017. This role has been entrusted to us for the fifth time in a row, which confirms the Bank's leadership in this market segment. The Bank has been consistently involved in the promotion of the Polish market and has actively contributed to the development of the domestic debt issuance policy for several years.

In May 2016, the Bank received two awards from BondSpot S.A. For another year in a row, we were honored for the highest turnover on the Treasury BondSpot Poland spot market and for achieving the position of a Treasury BondSpot Poland market making leader in 2015.

According to the "Rating & Market" report by Fitch Ratings, at the end of 2016 the Bank held a 15% market share as an arranger of issues of bonds and certificates of deposit for banks and was ranked second among other market participants.

The CitiFX Pulse electronic platform remains very popular among clients. Nearly 80% of all foreign exchange transactions are executed using this platform. The tool is being constantly developed and expanded to include new functionalities. In 2016, we integrated the SEPA Direct Debit service with the CitiFX Pulse currency platform, giving clients even more control over payments and the related currency exchange process. Thanks to the CitiFX Pulse electronic platform, clients can trade on their own 24/7, access market data before closing the deal, and use functionalities supporting the analysis of currency exposures.

In 2016, the Bank was active in the market of debt securities and syndicated loans by participating in the following transactions:

• Closing a PLN 1.25 billion securitization deal for a banking sector client in Poland; as a result of this transaction, which was a first executed for a Polish financial institution, the client obtained financing and participation exemption;

• Conducting a syndicated issue of 5-year bonds amounting to PLN 1.75 billion for the European Investment Bank;

• Conducting a syndicated issue of 10-year bonds amounting to PLN 1.1 billion for the European Investment Bank;

• Closing a new lending deal as a bank club for a client from the automotive spare parts distribution industry, amounting to up to PLN 1.1 billion;

• Joining the existing program by a leasing company from the Issuer's group within the framework of a bond issuance program amounting to up to PLN 500 million;

• Closing a new lending deal as a bank club for a publishing industry client of up to PLN 390 million;

• Concluding a new bond issuance program for a company from the financial services sector listed on the WSE, amounting to up to PLN 120 million.

4.4 Transaction services

The Bank is a leading provider of transactional banking services in Poland. The transactional banking offer includes the following products and services:

- Cash management products: deposits and current accounts, liquidity management products, MicroDeposits and e-banking;
- Cards;
- Payment and receivables processing: Direct Debit and Speedcollect;
- Cash products;
- EU-oriented advisory services;
- Trade finance products.

FATCA

Pursuant to the Act of 9 October 2015 on Performing the Agreement Between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA, a number of obligations have been imposed on the Polish financial institutions that involve, inter alia, obtaining client tax status declarations, performing documentation reviews and classifying clients.

As a result of coordinated action, the following measures were introduced in many business areas of the Bank:

- an analysis of the changes required was conducted after consultation with advisories;
- a number of changes were introduced to banking systems;
- a campaign, very complex in terms of logistics, was conducted in order to obtain thousands of forms;
- the required operating steps were followed in order to classify clients, and properly document their statuses.

The result of the work was the complete fulfilment of the requirements of the Act implementing the FATCA legislation and ensuring the Bank's compliance in this area while ensuring the clients' smooth transition during the sensitive regulation implementation period, avoiding the blocking of client accounts, which was among the sanctions provided for under the Act.

Standard Audit File for Tax

In 2016, the Bank implemented the reporting of transactions in a format compatible with the Standard Audit File for Tax (the "Bank Statement" structure, i.e. JPK_WB) for the Bank's clients. The solution, which has been available at the Bank since July 2016. enables clients to regularly receive information on banking transactions as well as to order individual reports according to specified criteria (e.g. dates, accounts).

Deposits and current accounts

Current account is the basis for fully using 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 receiving the crucial part of operational cash flow of their owners.

Excess funds accumulated by a client in a current account, i.e. funds that are not required to finance day-to-day operations, may be invested in time deposits or be left in the current account with an increased interest rate. In addition to time 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 client or within a capital group.

The liquidity management tools offered by the Bank provide the possibility of optimal management of a cash surplus at over-liquid companies and firms with increased demand for capital. The Bank's liquidity management products include:

- 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 clients to streamline certain operational processes.

Electronic banking

The Bank offers to institutional clients the CitiDirect platform for electronic banking. The system is made available to clients as a tool for handling daily settlements and for cash management. In 2016, the number of transactions carried out via CitiDirect stood at nearly 26 million. The number of active clients of the electronic banking system at the end of 2016 amounted to nearly 4,500. The share of bank account statements delivered to clients in electronic form only remained high and stable and exceeded 90% just like in the previous years.

In 2016, the Bank consistently implemented the plan for the further commercialization of mobile solutions offered to institutional clients, which was clearly reflected in the increase of the number of transactions executed using this channel and the overall activity of users on this platform. In 2016, institutional clients submitted nearly 62,000 transactions in this manner.

Further work was carried out in order to provide the Bank's clients with a number of new solutions in the area of electronic banking. The most significant changes proposed to clients in 2016 included:

- making available an improved reporting module in the CitiDirect system, which enables more efficient access to file import and export functions;
- making available a new module for handling reports and files and for managing user privileges with the simultaneous transfer of user activities to the new functionality;
- the implementation of the new MobilePASS token as an alternative for those users who want more flexibility in accessing CitiDirect;
- the introduction of additional security mechanisms into CitiDirect, which are designed to further reduce potential risks;
- making available a new online cybersecurity site that makes CitiDirect users aware of online security issues;
- introducing changes concerning SEPA payments that enable the systems to be adapted to new regulations;
- as a pilot project, a feature was made available that enabled selected clients to submit instructions concerning Bank products and services through the eWnioski electronic documentation exchange platform;
- additionally, the development of the Citi Trade Portal trade finance and services platform continued – a number of improvements were made, of which the most important one was the introduction of new Trade Credit functionality both for Sellers and for Buyers.

Receivables management: SpeedCollect, Direct Debit, Cash Products

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of bulk payments. In 2016, the Bank remained one of the top leaders in Poland's market in terms of volumes of processed transactions. The volume of transactions remains similar to that in 2015.

Direct Debit. The Bank provides its clients with comprehensive receivable processing services. The direct debit market is a segment where services of this type are provided. In 2016, the Bank strengthened its position as the market leader and processed the largest number of transactions as the creditor's bank for another year in a row, maintaining its market share at around 45%. At the same time, the Bank began the transition to the digital handling of direct debit authorizations – in 2016, over 45% of authorizations were handled electronically and the number of transactions processed increased by 27% y/y.

Additionally, Citi Handlowy introduced an innovative solution combining the **SEPA Direct Debit product with the Citi FX Pulse** currency exchange platform. It is a novel solution in the Polish market and an important element that makes the Bank's offerings stand out among the competition. The SEPA Direct Debit combined with the Citi FX Pulse currency exchange is ideal for companies that perform regular settlements with counterparties from the eurozone (import, logistics and transport, administrative charges and local taxes). The solution enables, inter alia, full payment automation and reduces the risk of delays.

Cash products. The Bank provides its clients with comprehensive cash management services. A vast majority of over-the-counter deposits are sealed, i.e., they are delivered to the Bank in sealed packages and counted without the client being present. The service may be provided nationwide at more than 1,200 locations. The share of cash in domestic transactions remains at a constant, very high level. Additionally, the Bank provides open deposit services at more than 4,500 locations thanks to its partnership with Poczta Polska S.A.

Cash deposits may be made directly into clients' accounts with the Bank. However, in view of the clients' needs for the automation of cash deposit management processes and the 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, the information necessary to identify deposits is included directly in the account number, which minimizes the risk of incorrect (unidentified) payments.

In order to meet the clients' needs, the Bank has introduced a solution designed to optimize the activities related to the preparation of sealed deposits, accessing the status of the sealed deposits made and the reporting of expected funds.

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

With a view to better alignment with the clients' needs and a focus on customer service at locations that are key to its clients, the Bank expanded its partnership with Poczta Polska S.A. The Bank's offerings include cash withdrawals commissioned using the Bank's electronic banking system and effected at all branches of Poczta Polska S.A. nationwide. In 2016, the number of withdrawals effected at Poczta Polska offices increased by 100% compared to 2015.

Non-cash payments

The Bank boasts a comprehensive and very extensive settlement offering in over 130 currencies throughout the world. Integrated settlement services include a compilation of remote access channels and product offerings in the area of international settlements. In response 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. In the first half 2016, the Bank introduced a new currency – the Kazakhstani tenge (KZT) – into its range of settlement services offered. The currency was previously only available for outgoing transfers within the framework of the Multicurrency Account. Currently, clients are able to both send and receive transfers in the Kazakhstani tenge.

Automating Financial Institution (FI) payments – a project was implemented that allowed the STP ratio to be raised from 0% to 95%. The value of automated transactions exceeds PLN 128 billion per month. The change has significantly raised the transaction security level and the transaction digitization level at the bank, and above all significantly improved the quality of the services provided to clients.

Electronic Money Orders

The electronic money order is a product addressed to institutional clients that transfer cash to individuals. In 2016, the Bank processed about 370,000 orders, thus reporting a slight increase as compared to the same period of 2015.

Business cards

In the Charge and Guaranteed Card area, the Bank recorded, as compared to 2015, an increase in the number of cash transactions, and an increase in the value and number of cashless transactions by 2% to 4%. That was attributable to the consistent policy of attracting high transaction volumes and activating the portfolio of existing clients.

Prepaid cards

In 2016, the Bank reported a significant increase in the value of non-cash transactions executed with prepaid cards compared to the same period of 2015. The number of non-cash transactions increased by 48% while the value of transactions with prepaid cards increased by 31% y/y. The Bank also increased the number of issued cards by almost 60% compared to 2015. This considerable increase in the number of cards issued was driven by the largest transaction so far in the Polish corporate prepaid card market, which the Bank carried out in cooperation with its business partner.

In 2016, the Bank introduced a second payment organization for prepaid cards and now issues both VISA and Mastercard prepaid cards.

EU-oriented advisory services

In 2016, the Bank participated in certain measures related to the EU Financial Perspective 2014–2020 where banks are important partners in the distribution of European funds and in the financing of investments co-financed with subsidies and repayable assistance instruments. Those measures included primarily the participation in the work of thematic working groups of the Polish Bank Association and cooperation with Bank Gospodarstwa Krajowego, which implemented the "Loan for Technological Innovation" project within the framework of the Smart Growth Operational Program in order to finance innovative projects by small and medium-sized enterprises (SMEs).

Activities related to the implementation of the ELENA Program were also conducted. The Program, which is implemented pursuant to the agreement concluded by the Bank with the Kreditanstalt für Wiederaufbau, provides local government units with funds to cover the cost of projects aimed at increasing energy efficiency that are in line with the EU 20-20-20 strategy.

Trade finance products

In 2016, Trade Finance continued to focus on the development of financial products, winning new clients and developing active programs. Throughout the year, it managed to maintain a stable level of assets; in December 2016, this reached its peak on an annual basis and was 20% higher than in December 2015.

This was possible thanks to the sales campaigns, targeted mainly at small and medium-sized enterprises, and thanks to the development of existing programs with major corporate clients.

In 2016, the Bank completed work on the streamlining of operational processes by completing the implementation of its electronic platform. The Platform now covers the entire range of 12 Trade products. It has replaced six systems and applications used previously, which should bring annual savings of PLN 1.25 million. The portal currently serves 692 clients (2,200 users) – by implementing electronic platforms, 100% of financial transactions were processed on the basis of electronic applications and in the field of documentary operations, almost 90% of transactions were conducted on the basis of electronic orders as well. This enabled a significant acceleration of transactions, reduced handling costs and eliminated some potential operational risks. In total, the Bank processed more than 360,000 transactions and applications received through the electronic platform.

Key trade finance transactions in 2016 included:

- Granting around a dozen trade loans to clients from the small and medium-sized enterprise segment, amounting to PLN 110 million in total;
- Extending by another year the operation of the bank consortium that supports one of the biggest oil inventory financing transactions in the Polish market at PLN 200 million;
- Granting financing amounting to more than PLN 150 million to a company from the mining industry;
- Increasing aggregate credit limits under the Supplier Finance Program by PLN 150 million;
- Inclusion of more than 100 new suppliers in the Supplier Finance 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 is able to meet the requirements of the largest and most demanding institutional clients.

Citi Handlowy has 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 clients at general shareholders' meetings of public companies. The Bank maintains omnibus accounts for authorized foreign entities. The Bank also provides the service of maintaining a registry of foreign securities, which includes mediation in clearing transactions of domestic clients in foreign markets.

In December 2016, the Bank implemented a new service related to maintaining accounts in the client's name with KDPW S.A. (National Depository for Securities), including the transfer of instructions received from the client to KDPW S.A. and vice versa – settlement confirmations and statements from the entity's accounts opened at KDPW S.A. for the Bank's client. The service is targeted at foreign depository and settlement institutions (financial entities with the ICSD status) and includes the handling of securities accounts and omnibus accounts of such entities.

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

As at 31 December 2016, the Bank maintained over 9,200 securities accounts.

At the same time, the Bank served as depositary for four open-end pension funds (OFE): Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE, Nordea OFE; three voluntary pension funds: Nationale-Nederlanden DFE, DFE Pekao and Generali DFE, and also for the Orange Polska Occupational Pension Fund.

The Bank was a custodian bank for investment funds managed by the following fund management companies (TFI): BZ WBK TFI S.A., PKO TFI S.A., Legg Mason TFI S.A., Aviva Investors Poland TFI S.A. and Templeton Asset Management (Poland) TFI S.A.

In 2016, the Bank continued its activities aimed at improving the legal regulations concerning the securities market. A representative of the Bank was the Chair of the Bureau of the Council 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 process of setting agreement standards and recommending good practices related to the performance of depositary functions in connection with the performance of investment fund depositary duties with respect to the requirements of the 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. Based on the Bank's resources, experience and competences, employees of the Bank in cooperation with the Polish Financial Supervision Authority, KDPW S.A. (National Depository for Securities), KDPW_CCP S.A. (National Depository for Securities – Central Counterparty) and the Warsaw Stock Exchange participated in consultations on the implementation of new solutions in the Polish capital market through working groups established at the Polish Bank Association and also through market working groups. Among other things, the Council actively participated in agreeing the plan for implementing in the market the projects related to adapting to the provisions of the Central Securities Depository Regulation (CSDR) and analyzed the opportunities for participating in new technology projects based on the distributed ledger concept.

4.5 Brokerage Activity

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

In 2016, DMBH brokered session transactions representing 10.3% of equity turnover in the secondary market and ranked first in the market for the eighth time in a row. This was a market share similar to the level recorded in 2015. The value of session transactions executed via DMBH in the equity market on the Warsaw Stock Exchange (WSE) amounted to PLN 39.0 billion and declined by 9.5% in relation to the previous year while trading on the WSE decreased by 6.9%.

At the end of 2016, DMBH was the Market Maker for the shares of 63 companies listed on the Warsaw Stock Exchange (including 20 covered by the WIG20 blue chip index). That represented 13.0% of all shares traded on the WSE main market.

In the retail client segment, DMBH reported record results in 2016, to which the very successful subscriptions for closed-end investment fund certificates organized in cooperation with the Bank and the sale of Treasury bonds contributed. 2016 also saw considerable activity by retail clients using the CitiFX Stocks transactional platform, which enables trading in shares and ETF instruments listed on major foreign exchanges as well as OTC FX instruments using financial leverage. Owing to advisory services, which are increasingly popular among CPC clients, fee and commission income in foreign markets grew significantly, offsetting the decrease in client activity, which has been observed on the Warsaw Stock Exchange for several quarters now, to a significant extent.

The number of brokerage accounts maintained by DMBH at the end of 2016 was 12,400 and increased by 18% compared to the previous year. The number of accounts increased primarily due to the large number of brokerage service agreements concluded for the FX and foreign market services provided via the CitiFX Stocks platform.

In 2016, DMBH carried out the following transactions on the capital market:

- Stalprodukt S.A. – DMBH acted as an intermediary in the tender offer process related to the second tranche of the share buyback program implemented by Stalprodukt S.A.; the value of the second tranche of the program amounted to PLN 89.6 million (February 2016);
- Stalprodukt S.A. – DMBH acted as an intermediary in the tender offer process related to the third tranche of the share buyback program implemented by Stalprodukt S.A.; the value of the third tranche of the program amounted to PLN 89.6 million (April 2016);
- DTP S.A. – DMBH acted as an intermediary in a tender offer for DTP S.A. and in the squeeze out in which the entity announcing the tender offer and performing the squeeze out was PRAGroup Polska sp. z o.o.; transaction value amounted to PLN 174.5 million (the tender offer transaction was settled in April and the squeeze out – in June 2016);
- Bank Pekao S.A. – DMBH played the role of the Joint Book Runner for the sale of own shares held by Unicredit S.p.A; the transaction amount was PLN 3.3 billion (the transaction was settled in July 2016).

Summary financial data as at 31 December 2016*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2016
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	406,650	109,224	12,694

*pre-audit data

4.6 Leasing

In connection with the decision of the Bank's Management Board made in March 2013 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 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 to service existing agreements, maintaining the service quality and ensuring process continuity and the economic efficiency in its business.

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

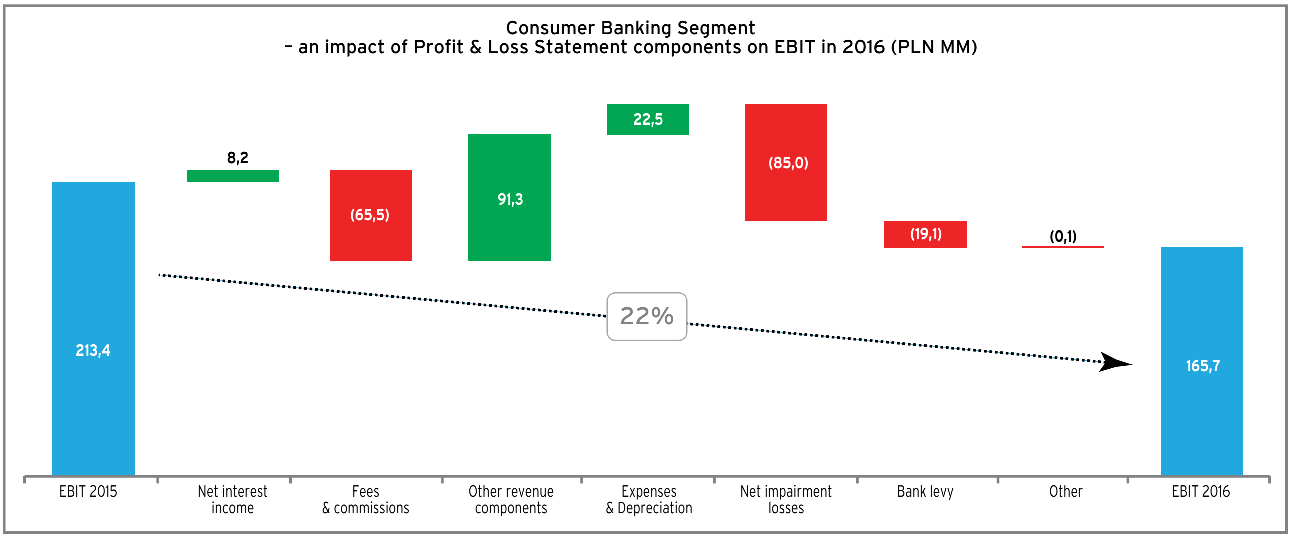
Summary financial data as at 31 December 2016*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/ loss for 2016
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	44,921	35,899	7,691

*pre-audit data

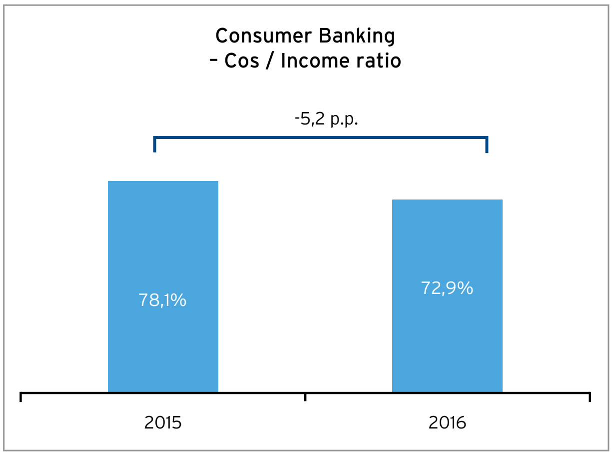
5. Consumer Banking Segment

5.1 Summary of the segment's results



In 2016, the Consumer Banking segment recorded a decline in gross profit of PLN 47.6 million, i.e. 22.3%. The profit before tax of the Consumer Banking segment in 2016 compared to the previous year was driven mainly by the following factors:

- Increase in interest income despite reduced interest rates following changes of market interest rates, which were partially offset by an increase in the loan product portfolio (by 5% y/y) and reduced interest expenses. Despite a significant increase in deposit volumes (by 14% y/y), the decrease of interest costs was driven by a reduction of interest rates which were brought in line with the market rates (interest rates were reduced mainly for savings accounts and deposits) as well as by a positive change in the composition of the deposit portfolio (growing share of current accounts and decreasing share of time deposits);
- The decline in net fee and commission income recorded on investment products (as a consequence of the deteriorated market sentiment) and credit insurance (due to new regulatory requirements concerning group insurance) was partially offset by the implementation of new insurance products, both credit and non-credit ones, and the alignment of the table of fees and commissions to the model of client segmentation in line with the Bank's strategy, i.e. preferential treatment only for clients with an in-depth relationship with the Bank (free of charge accounts, preferential rates for conversions and free investment advice);
- The increase in other income components due to the increase in income from investment equity securities available for sale by PLN 66.5 million as a result of posting the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. and higher dividend income as well as profit on financial instruments held for trading (an increase in conversion transaction volumes related to Gold clients and credit cards);
- A decrease in operating costs as a result of restructuring; a large part of the savings generated was invested in marketing;
- The cost to income ratio decreased by 5.2 percentage points since payroll expenses were reduced;



- The establishment of net impairment write-downs in 2016 amounting to PLN 71.2 million compared to a reversal of net impairment write-downs amounting to PLN 13.7 million in 2015 as a result of the increase in the average age of the impaired loan portfolio as well as the increase in IBNR provisions caused by the growth of the loan portfolio.

5.2 Selected business data

	2016	2015	Change	
			PLN '000	%
Number of individual customers	680.8	682.9	(2.1)	(0.3%)
Number of current accounts, including:	457.9	464.6	(6.7)	(1.4%)
number of operating accounts*	89.5	93.6	(4.1)	(4.4%)
Number of operating accounts newly acquired in the period	51.3	61.4	(10.1)	(16.4%)
Number of savings accounts	150.1	160.4	(10.3)	(6.4%)
Number of credit cards, including:	698.6	697.0	1.6	0.2%
Number of debit cards, including:	248.3	276.7	(16.3)	(6.2%)

** Change in the methodology in 2016. 2015 was adjusted.*

5.3 Key business achievements

Bank accounts

Current accounts

The total account balance increased by over 28% and exceeded PLN 5,1 billion. The number of personal accounts at the end of 2016 fell to 458,000 (at the end of 2015 it had amounted to 464,000). Of those, 267,000 were Polish zloty accounts, and 191,000 were foreign currency accounts.

Savings accounts

The number of savings accounts as at the end of 2016 was 150,000. The total balance of funds accumulated in them exceeded PLN 3 billion as against 160,000 savings accounts with a total balance of almost PLN 3 billion in the same period last year.

Changes in the offering

In March 2016, the revised Table of Fees and Charges took effect. For clients with CitiKonto Personal Accounts, charges for debit card withdrawals from ATMs other than those owned by Citi Handlowy and account maintenance charges were increased. Charges for foreign currency accounts were introduced as well.

The changes introduced are consistent with the Bank's strategy. The new model of fees and commissions encourages clients to tighten their relationship with the Bank so that they satisfy the criteria for Citi Priority or Citigold clients who still receive these services free of charge. It should be stressed that no new or higher charges were introduced for clients from the Gold or Citigold Private Client segments.

In April 2016, following a decrease in interest rates on one-month deposits in the Polish interbank market (WIBID 1M), the bonus interest rate on the funds accumulated in the Saver Account in Polish zlotys and the interest rate on the funds accumulated in the SuperSaver Account in Polish zloty were decreased as well. In 2016, interest rates on time deposits did not change.

In 2016, the Bank introduced a number of solutions that have made using its accounts more comfortable and secure. Among other things, in July 2016 it enabled clients to confirm with text message codes the transactions conducted online using a debit card. This feature has increased the clients' online security level.

Since November 2016, as a result of complying with Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 in the area of credit transfers and direct debits in euro, the Bank has facilitated transfers abroad for clients and no longer requires a BIC/SWIFT when such transactions are ordered.

During the year, the Bank continued to focus its acquisition support on the Citigold, Citigold Private Client and Citi Priority client segments through promotional offers and the Citigold Recommendation Program; additionally, the Citi Priority account product has been supported by an online information campaign. Involvement in this area will also continue in 2017. In order to improve Citigold and Citi Priority acquisition, the Bank also expanded its telephone acquisition team for Citigold clients (Tele Gold) and created a new Citi Priority acquisition support team (Tele Priority Bank). In 2016, the Bank also focused on Citigold client retention by introducing a personalized, proactive response process in cases where the client partially withdraws his or her funds from the Bank. The establishment of such a process improved the quality of services for affluent clients, enabling the Bank to know their needs and helping it to adapt its offerings to the clients' expectations.

Credit cards

At the end of 2016, the number of credit cards amounted to 699,000. The debt balance on credit cards at the end of 2016 amounted to PLN 2.3 billion, i.e. was 7.9% higher than that reported for the same period in the previous year. As a result, the Bank consolidated its leading position in the credit card market in terms of the value of credit facilities extended, holding a market share of 25.5% according to figures as at end December 2016.

In 2016, credit card acquisition was higher than in the previous year. A significant increase (by 36%) was observed. Such a large increase was due to the Bank's intense acquisition effort that involved making its credit card offerings more attractive. This resulted in numerous awards in 2016 such as the Golden Banker for the advertising campaign for the Simplicity card and the second place in the Forbes ranking of prestigious cards.

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

The Bank consistently diversifies its acquisition channels while further optimizing its sales processes.

Credit products

Cash advances and instalment products to credit card account

The balance of cash products at the end of 2016 amounted to PLN 2.7 billion, an annual increase of 2.2%. Total sales of cash products reached PLN 1.4 billion in 2016.

In 2016, the Bank continued its model for the sales of cash products as revised in 2014, focusing on sales through remote processes such as telephone sales or sales via the Bank's online platform and simple direct sales processes, among others at modern Smart branches and at the Smart Mini outlets established in 2016.

Mortgage products

At the end of 2016, the mortgage loan portfolio balance stood at PLN 1.3 billion, which represented an increase of 1.2% compared to the end of 2015. Sales of mortgage products in 2016 amounted to PLN 150 million.

Investment and insurance products

Investment products

At the end of 2016, the total value of investment products (including investment-type insurance products, net of bi-currency investments) purchased by consumers via the Bank was 4% higher than at the end of the same period of 2015.

This increase was in the area of 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 32 issues of investment certificates of closed-end investment funds.

As regards structured products, the Bank offered 81 structured bond subscriptions denominated in PLN, USD, GBP and EUR in the entire 2016.

As concerns open-end investment funds, in 2016 the Bank introduced 12 funds into its range of products on offer, including three multi-asset strategies managed by a foreign investment firm and offered in Poland exclusively by the Bank, four equity funds, four debt funds and one mixed fund managed by foreign investment firms.

Within the framework of the development of service processes related to its investment offerings, the Bank deployed a new tablet application to handle clients from the Citigold Private Client and Citigold segments; the application enables electronic customer service processes, including profiling, investment advice and accepting orders for selected products.

Insurance products

Within the framework of the development of its insurance offerings, the Bank implemented new projects, including the introduction of products in cooperation with Towarzystwo Ubezpieczeń na Życie WARTA S.A. (life insurance company). In cooperation with this insurer, term life insurance together with a package of additional insurance products, life insurance and endowment insurance, life insurance with coverage in the event of serious illness and unit-linked life insurance with single premium were introduced into the range.

The Bank also started to introduce a customer service model at Bank branches that involves insurance experts who provide specialist support to clients related to financial planning with the use of insurance products.

6. Development of distribution channels

6.1 Direct acquisition

The Mobile Sales Department operates nationwide, with presence in six major Polish cities. Mobile Relationship Managers acquire new clients for the Bank during cultural and sporting events, at corporations and public administration units as well as in fixed locations such as airports, cinemas, shopping malls or gas stations. They are responsible for the Smart Mini mobile sales and service points – in 2016, three such outlets were created. Currently, there are 105 mobile Relationship Managers within the Universal Bankers channel. The sales in the Bank's Universal Bankers channel in 2016 included:

- 13,425 credit cards, which is an increase of 121% compared to 2015;
- 1,013 Priority Accounts compared to 702 in the previous year. This means an increase of 44%. Additionally, the portfolio of accounts acquired is of better quality as evidenced by the increasing activation ratio;
- PLN 106.5 million of cash loans. This is an area in which the Universal Bankers channel recorded the greatest progress in both quantitative and qualitative terms compared to the previous year.

6.2 Branch network

Construction of a Smart Bank Ecosystem

In 2016, in the branch network area Citi Handlowy continued the implementation of the strategy for the construction of a Smart Bank Ecosystem announced three years ago; this is based on a lightweight distribution network and on maximum use of remote channels in acquiring and serving clients. This retail banking distribution model is not about the number of outlets but rather about their highest efficiency and optimal location.

On the one hand, the Bank continued the optimization of the traditional branch network, which resulted in the closure of the last 20 branches of this type. In the case of six cities (Białystok, Toruń, Lublin, Gliwice, Częstochowa and Bielsko-Biała), this resulted in it no longer being physically present in these markets. All clients affected by this change were referred to alternative access channels guaranteeing secure 24/7 access to the Bank's services and products via online, mobile or phone banking.

At the end of 2016, the network of the Bank's branches comprised 25 outlets.

On the other hand, the Bank introduced a new physical distribution format. In November 2016, Citi Handlowy opened three Smart Mini mobile sale and service points. The Smart Mini Format is the Bank's response to changing trends in retail banking and in client behavior – the increasing use of remote access channels for managing finances. Smart Mini are formats that are meant to literally "follow" clients, using the short-term sales potential of different locations. The bank offers fully functional facilities with just 12 square meters of floor area. Clients can make deposits and withdrawals in PLN and in foreign currencies, carry out electronic banking transactions or apply for an account, loan or credit card, which they will receive on the spot. At Smart Mini outlets, paper documents have been replaced with digital ones. Services are only provided using tablets – without paper, but using electronic signatures instead. This has all been made possible through the use of state-of-the-art technology. Smart Mini outlets are fully mobile, with an island layout; their functionality and design allow them to be moved to any location in Poland within two or three days, so the bank can literally follow its clients. They may be located at shopping malls, at corporate headquarters, in cinemas or at railway stations. Smart Mini outlets currently operate in Kraków, Poznań and Janki near Warsaw. The Smart Mini concept is an original idea developed by Citi Handlowy and implemented in this form in Poland only.

The most affluent clients from the Citigold and Citigold Private Client segments still have Personal Relationship Managers at their disposal at Branches situated in nine major Polish cities. At the same time, the Bank has developed remote service processes, which allows it to offer to clients an ever wider range of transactions during phone conversations with the Relationship Manager or during meetings at any location, without the need to visit a physical branch. The Bank has also introduced new tools enabling the handling of Citigold products on iPads – without paper documents, using an electronic signature.

Number of branches (at the end of period)

	December 31, 2016	December 31, 2015	Change
Number of branches (at the end of period):	25	45	(20)
- HUB Gold	7	8	(1)
- Smart Hub Gold	2	2	-
- Blue	-	18	(18)
- Investment Center	1	2	(1)
- Smart Branches	14	14	-
- Corporation Branches	1	1	-
Other POS:			
Smart Mini	3	-	3

6.3 Internet and telephone banking

Online Banking

The number of active Citibank Online users, i.e. those who logged on to the site at least once every 30 days, reached 322,000 at the end of 2016. The share of active Citibank Online users in the total portfolio of the Bank's clients amounted to 48% at the end of 2016. The share of active electronic banking users who carry out financial transactions was 72%.

As at the end of 2016, the number of digital users (i.e. those who used Citibank Online or Citi Mobile services on various devices at least once a month) reached 336,500, i.e. 50% of all of the Bank's retail clients. The share of transactions executed online or via mobile banking channels in total banking transactions at the end of 2016 amounted to 97.5% and grew by more than 2 p.p. in relation to 2015.

The Bank is completing work on the project under which a new Citibank® Online transaction system will be developed. The project uses an Agile methodology, which means that the system is being deployed in several stages in parallel and its various features and elements are implemented on a quarterly basis. The system is developed on the basis of the RWD (Responsive Web Design) technology. The platform has a modern and intuitive design, can be freely used on mobile devices and introduces many other innovative features that will be made available to clients in the first quarter of 2017.

In compliance with the project methodology adopted, tests and interviews with users make it possible to introduce changes on the fly and develop the best solutions.

Last year, credit card acquisition through online campaigns was the source of the largest number of new clients. The number of cards sold increased by 47% compared to the previous year and accounted for 33% of total sales at the bank. The acquisition of loans and hire purchase products increased by 147% y/y.

Mobile banking

The number of active Citi Mobile users, i.e. those who accessed mobile banking at least once every 30 days, exceeded 85,000 at the end of 2016, an increase of more than 20% compared to December 2015. The share of active users of mobile banking in the entire consumer portfolio stood at over 13%, which represents an increase by 2 p.p. over the same period of 2015.

Since the launch of the Citi Mobile banking system in May 2010, the application has been downloaded 260,000 times.

Social Media

In 2016, the Bank continued its activities in social media, which remained an important channel of contact with the clients. The Bank focused on improving the quality of customer service, 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), and the average daily reach amounted to 22,000 people. The Bank has more than 145,000 fans.

7. Changes in IT technologies

In 2016, projects were implemented in the technology area that were aimed at making the Bank more competitive by providing the highest-quality services and products with broad support for innovative solutions, digitization and automation while optimizing costs at the same time. IT processes at the Bank operate according to international standards, as recognized in the first quarter of 2016 by the positive outcome of the ISO 20000 (IT service management) recertification audit and the ISO 27001 (information security management) and ISO 22301 (business continuity) surveillance audits.

The following solutions were implemented in 2016:

- **in the Corporate and Commercial Bank area:**
  - the implementation of electronic form modules for institutional clients;
  - the launch of the module to support trade credit in the trade finance services area;
  - the launch of Mastercard prepaid cards;
  - the upgrade of the Prime/Online platform for prepaid card handling;
  - the automation of LORO transaction processing;
  - the implementation of the Standard Audit File for Tax as required by the Ministry of Finance as a product offered to clients in the bank statement area;
- **in the Consumer Bank area:**
  - the development of the CitiMobile platform for consumers – further changes to improve platform performance and functionality, including the implementation of a new method for delivering notifications (Push Notification);
  - the implementation of a systemic solution to handle new investment funds for consumer banking clients;
  - the implementation of new systemic solutions to handle the products and processes related to the sale of insurance products;
  - the optimization of consumer service channels – the porting of the CitiPlanner application to iPads;
  - changes in the collection process, which is conducted using a dedicated application;
  - the automation of the fee charging process for different types of products and processes;
  - the development of the online banking platform, in particular in order to improve client experience;
  - adapting the retail banking system to the government 500+ child allowance program;

- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
  - the implementation of a new solution for calculating CIT, PIT and VAT due to tax changes;
  - the launch of the solution required to comply with FATCA regulatory reporting;
  - the systemic implementation of the requirements resulting from Recommendations P and W of the Polish Financial Supervision Authority;
  - adapting the Bank's systems to enable the processing of SEPA foreign payments;
  - the implementation of the Standard Audit File for Tax as required by the Ministry of Finance;
  - adjusting the mechanism of calculating contributions to the Banking Guarantee Fund;
- **in the area of the Bank's ICT infrastructure and information security:**
  - the introduction of further mechanisms to secure the Bank's online platforms, including anti-malware, 3D Secure, Suspicious Activity Detection, Arcsight, Device Print;
  - the deployment of the ForeScout application and process – active monitoring/detection of unidentified objects in the Bank's network;
  - upgrading the Elixir platform used for settlements in the domestic market;
  - the migration of environments that are nearing the end of their technological life cycle to new IT environments, including enhancing system stability;
  - the deployment of WiFi infrastructure at more Bank locations;
  - the implementation of VoIP telephony at more Bank locations, including the upgrade of voice recording infrastructure for recording phone calls;
  - the deployment of a new system for recording conversations at the Bank.

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

- **in the Corporate and Commercial Bank area:**
  - the implementation of a new platform for handling commercial cards for institutional clients;
  - the implementation of systems that support the work of the Financial Markets Sub-Sector in the derivatives area;
- **in the Consumer Bank area:**
  - further enhancements to the online banking platform, broadening the scope of automatic transaction processing;
  - the further optimization of SMART branches and the launch of alternative solutions such as SMART Mini;
  - automating and digitizing sales processes (straight through processing) in the area of consumer banking products – cards, loans, accounts;
- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
  - the implementation of the Know Your Customer platform in order to improve the process for identifying clients;
  - the further adaptation of the Standard Audit File for Tax functionality for the Bank as required by the Ministry of Finance;
- **in the area of the bank's ICT infrastructure and information security:**
  - the implementation of further new-generation security mechanisms in banking systems;
  - the implementation of a new follow-me printing environment based on a XEROX solution;

8. Equity investments

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In 2016, 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 its market share, stimulate development of the Bank's relations and expand the Bank's offering; 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 financial services market.

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 their 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.

8.3 Special purpose investment vehicles companies

As at 31 December 2016, 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) basic financial data of the companies in question as at 31 December 2016 were as follows:

Special purpose investment vehicle companies

Entity	Headquarter	Authorized capital/votes in GM held by the Bank	Balance sheet	Equity	Net financial profit/loss for 2016
	%	PLN '000	PLN '000	PLN '000	
Handlowy-Inwestycje Sp. z o.o.	Warszawa	100.00	10,913	10,885	50
Handlowy Investments S.A.*	Luksemburg	100.00	19,303	18,856	(55)

** Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2017, which is the entity's balance sheet date.*

9. Awards and honors

In 2016, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- Citi Handlowy was included for the tenth time in the RESPECT Index – the first index of responsible companies in Central and Eastern Europe compiled by the Warsaw Stock Exchange.
- Citi Handlowy received the "Ethical Firm" award from Puls Biznesu. In the 2nd edition of the daily's business competition, 15 companies were selected with the highest ethical standards that engage in comprehensive, systemic measures in order to build and strengthen an organizational culture based on values and that are the most active companies in Poland in this respect.
- 23 initiatives in the field of corporate social responsibility (CSR) launched by Citi Handlowy were featured in this year's 14th edition of the Responsible Business Forum report. "Responsible Business in Poland. Good Practices" is the only publication summarizing the most important projects in the field of CSR in Poland.
- Out of the 51 initiatives submitted by companies and corporate foundations in the "Business Educational Activities. List of Most Significant Initiatives" category of the Responsible Business Forum, three projects were submitted by Bank Handlowy w Warszawie S.A.
- The Leopold Kronenberg Foundation at Citi Handlowy was awarded the title "Benefactor of the Year" in the "Corporate Foundation – Community Project" category. This title was awarded for the Foundation's Business in Women's Hands program implemented in cooperation with the Foundation for Women's Entrepreneurship.
- Citi Handlowy was also awarded the White Leaf by the Polityka weekly. This accolade goes to those companies which declare that they implement all of the most important management measures recommended by ISO 26000 and continuously improve their activities in this area to efficiently manage the impact of their business.
- Citi Handlowy was named the Top Employer for the sixth time. This award is granted by the Corporate Research Foundation Institute to companies whose HR policies obtained the highest marks in the survey conducted. This award is a confirmation of the purpose and value of the Bank's activities conducted in the human resources management area.
- For the fifth year in a row, the Bank won the competition for Treasury Securities Dealers held by the Ministry of Finance, obtaining the highest score among the 16 banks ranked. The Bank's victory in this prestigious competition organized since 2002 confirms its strong position in this market segment and gives it the mandate to provide such services in 2017.
- The Management Board of Citi Handlowy was recognized in the prestigious "Listed Company of the Year" ranking organized by the Puls Biznesu daily, in which the winner is selected by capital market participants in an anonymous vote. As the only financial institution, the bank was among the winners in the "Management Board Competences" category where activities related to communicating with the market and keeping promises and commitments were assessed.
- Following the end of year 2015 on the Warsaw Stock Exchange, Dom Maklerski Banku Handlowego S.A. (brokerage house) received a WSE award for equity market participants for the seventh time – for having the highest share in stock trading (excluding market maker transactions) in the main market.
- Citi Handlowy was among the three financial institutions that won the title of "Pillars of the Budget" in this year's edition of the ranking of the 500 largest companies in Poland compiled by the Rzeczpospolita daily. In 2015, "Pillar" awards were given to those companies that were the largest taxpayers. The main criterion was the amount of corporate income tax that the companies reported in their profit and loss accounts. Importantly, the award considers a period of more than one year and tax figures are also weighted using other indicators.
- Citi Handlowy was among the three best companies in this year's ranking of the British Euromoney monthly in the "Best private banking services overall in Poland" category. In the 13th edition of the Private Banking and Wealth Management Survey 2016, the bank was ranked 1st in three specialty categories: for the best technological innovation for clients, investment analysis and advice in terms of asset allocation, and services for international clients.
- Citi Handlowy once again received the highest rating for its private banking in the prestigious rating compiled by the Forbes magazine. This time, the introduction of new technological solutions that support the Relationship Managers' work and accelerate the investment process received particular praise.
- The Citi Simplicity card was awarded the Golden Banker award in the best credit card product category. In the 7th edition of the ranking, the cash loan and mortgage loan products were also ranked third in their respective categories.
- The Citi PremierMiles Credit Card for travelers was one of the finalists in the Best Card for Business Travel category of the 2015 Business Traveler Poland Awards. The award was presented on 17 February 2016 during the gala of the Business Traveler Award magazine.

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 deeper-than-expected slowdown in economic growth in the United Kingdom in connection with its exit from the European Union may hamper economic growth in the eurozone. Moreover, slower growth and the Brexit process itself may lead to a revision of the EU budget and a reduction in EU payments to Poland. The increase in support for anti-immigrant and anti-globalization populist parties in Europe may have a similar effect. In this context, a particular risk is posed by presidential elections in France. Marine Le Pen's victory would endanger the very existence of the eurozone and of the European Union and would threaten the marginalization of Poland's role in Europe. This in turn would have a highly negative impact on trade and economic growth in Poland and also on the PLN exchange rate and bond yields.

The uncertainty associated with the economic and foreign policies of U.S. President Donald Trump, including the United States' role in NATO, and expectations of a loose fiscal policy and restrictive monetary policy in the U.S. may lead to capital outflows from emerging markets, which may weaken the PLN and drive up bond yields.

Any significant economic slowdown would pose risks for the fiscal position, especially in the context of additional costs resulting from the reduction in retirement age. A weak fiscal situation and uncertain outlook for public finances could result in tax rises and reduced corporate investment, leading to a further deterioration in economic activity.

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, the downgrade could be followed by 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 the 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 President of NBP, and resolutions of the Polish Financial Supervision Authority ("PFSA") as well as regulatory recommendations and the laws enacted by the European Union.

Among the aforementioned legal and supervisory regulations the most important include:

- Banking Act of 29 August 1997;
- Act of 29 August 1997 on the National Bank of Poland;
- Civil Code Act of 23 April 1964;
- Commercial Companies Code Act of 15 September 2000;
- Act of 26 June 1974 – Labor Code;
- Personal Data Protection Act of 29 August 1997;
- Admissible concentrations of exposures and debt limits (Banking Act);
- Maximum level of equity investments in the capital market (Banking Act);
- Liquidity, solvency and credit risk standards (resolutions of the Polish Financial Supervision Authority);
- Risk management at the bank (Banking Act, resolutions of the Polish Financial Supervision Authority);
- Calculating and satisfying reserve requirements (NBP Act, Banking Act, 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 Act and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such loan;
- Limits regarding the extension of mortgage-secured foreign currency loans set forth in Recommendation S and Recommendation S(II) of the Polish Financial Supervision Authority;
- 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 and the Management of Alternative 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 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Restructuring (BGF);
- Act of 28 February 2003 – Bankruptcy Law, including so-called consumer bankruptcy;
- Act of 15 May 2015 – Restructuring Law;
- Act of 11 September 2015 on Insurance and Reinsurance Activity;
- Act of 5 August 2015 on the Handling of Complaints by Financial Market Participants and on 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 21 July 2006 on Financial Market Supervision;
- Act of 15 January 2015 on Bonds;
- Act of 9 October 2015 on Performing the Agreement between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA;
- Act of 15 January 2016 on the Tax on Certain Financial Institutions;
- Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 and European Commission implementing regulations (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 legislation;
- Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC – so-called MAR (Market Abuse Regulation);

- Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012;
- Commission Delegated Regulation (EU) 2016/438 of 17 December 2015 supplementing Directive 2009/65/EC of the European Parliament and of the Council with regard to obligations of depositaries;
- 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;
- Recommendation A of the Polish Financial Supervision Authority on the management of risks related to derivative transactions conducted by banks;
- Recommendation T of the Polish Financial Supervision Authority on good management practice concerning the risk of retail credit exposures;
- Recommendation I of the Polish Financial Supervision Authority on the management of foreign exchange risk at banks and rules of executing 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 on the management of IT areas and ICT environment security at banks. The recommendation has replaced the previous Recommendation D. As compared to the previous version of Recommendation D, provisions have been introduced, inter alia, that concern the management of data (including data quality), principles of co-operation between business and technology areas, the management information system for IT, ICT security and cloud computing. Supervisory expectations have also been updated and clarified as regards strategic planning in the IT area and security of the ICT environment, implementation of new and modification of existing IT solutions, co-operation with third-party service providers and management of risks connected with ICT environment security;
- Recommendation P on the management of the banks' financial liquidity risk;
- Recommendation W on the management of the banks' risk of models;
- Recommendation C concerning concentration risk management;
- Resolution of the Polish Financial Supervisory Authority No. 584/2015 of 17 November 2015 on the issuance of a Recommendation concerning the security of online payment transactions executed by banks, domestic payment institutions, domestic electronic money institutions and credit unions;
- 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;
- Guidelines of the Polish Financial Supervision Authority of 24 May 2016 concerning the provision of brokerage services on the OTC derivatives market. The guidelines are a supervisory interpretation of the legal acts setting forth the rules governing the sale of OTC derivatives. The purpose of the guidelines is to present recommended solutions with respect to OTC derivatives, including without limitation with regard to overseeing the sale of these products, conducting advertising, promotional and information activities, training sales staff, examining the suitability of products and the inclusion of certain types of clauses in their documentation. The guidelines apply to the Bank as well as to Dom Maklerski Banku Handlowego S.A. (brokerage house) as of 30 September 2016;
- Corporate Governance Principles for Supervised Institutions issued in PFSA Resolution of 22 July 2014. It is a set of principles that define the internal and external relations of institutions supervised by the PFSA, including investor relations, client relationships, their organization, internal governance as well as the key systems and internal functions, statutory bodies and their cooperation. The Principles apply to the Bank as well as to the DMBH brokerage house;
- 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) – in force since 3 July 2016;
- Act of 22 July 2016 amending the Act on the Minimum Wage and Certain Other Acts (Journal of Laws [Dz. U.] of 2016 item 1265 as amended of 17 August 2016). Apart from the introduction of a minimum hourly rate for those who perform mandates or service providers, the amendment to the Act on the Minimum Wage, also introduced – effective as of 1 January 2017 – new responsibilities in the area of recording working time for entrepreneurs using the services of natural persons who do not engage in business activity and who accept mandates or provide services under contracts of mandate or service contracts;
- Act of 16 December 2016 on the Amendment of Certain Laws in Order to Improve the Legal Environment for Businesses (Journal of Laws [Dz. U.] of 2016 item 2255 of 30 December 2016). The Act aims to remove a number of legal barriers related to various branches of the law. The most significant amendments to the labor law provided for in the Act that are effective as of 1 January 2017 concern the issuance of certificates of employment within specific time limits and on specific templates and also the requirement that agreements on joint liability for the property entrusted be concluded in writing under pain of nullity.

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

- On 23 December 2015, 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 in the Official Journal of the EU (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 banks), investment companies (UCITS) and their managers, AIFM, to report to a trade repository any repo, sell/buy-back, securities lending transactions. The Regulation entered 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 MiFID II regulatory package comes into force in January 2018 (as a result of the original effective date being shifted) subject to any further changes in laws or delays in the implementation to the legal system. MiFID II will replace the MiFID I package currently in force (which includes MiFID 1 Directive, MiFID 2 Directive and MiFID Regulation). 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, introduces changes to the structure of the organization and regulation of markets by introducing, where it is considered 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 regulators' powers of intervention as to the prohibition and restriction of certain activities in the financial market. An important part of the MiFID II package 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 MiFID regulations, 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 the service provided), 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;

- Draft Act on Mortgage Loans implementing Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, which should have been implemented in March 2016;
- The government draft Act amending the Act on Trading in Financial Instruments and Certain Other Acts whose primary purpose is abolishing the division of the regulated market into the stock exchange market and the OTC market and the introduction of regulations concerning derivative accounts;
- On 9 December 2014, Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) was published in the Official Journal of the European Union; its purpose is to enhance the protection for individual investors who purchase such products. The Regulation will enter into force on 1 January 2018. The Regulation requires entities that create and sell PRIIPs (including the Bank and DMBH) to meet a number of new obligations, primarily with respect to the provision of certain information to investors;
- On 23 December 2015, 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 (so-called PSD 2) was published in the Official Journal of the European Union; 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 a level playing field for existing and new market participants, 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 entire payment system and harmonize the market in the area of payment services. The deadline for transposing the directive into national law expires on 13 January 2018;
- On 4 May 2016, Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC was published in the Official Journal of the European Union. The Regulation entered into force on 25 May 2016 and will apply from 25 May 2018. The two-year transition period is meant to enable the full implementation of the requirements set forth in the Regulation with regard to the processing of personal data. The Regulation will be directly applicable in all Member States and will replace the current Directive 95/46/EC and national laws governing the protection of personal data, including the Polish Personal Data Protection Act of 29 August 1997. Under the Regulation, Member States will be authorized to adopt specific rules for particular areas to clarify the rules for the protection of personal data arising from the Regulation;
- Draft Recommendation Z of the Polish Financial Supervision Authority concerning internal governance rules in banks. In the opinion of the Authority, the draft addresses a key issue from the point of view of sound and prudent management of banks, which is 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 and the various essential elements of the risk management process;
  - Management of conflicts of interest, not only at the level of 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 for 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.
- Draft Law amending the Act on Trading in Financial Instruments and Certain Other Acts – the primary objective of the draft is to implement 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 (OJ L 173, 12.06.2014, p. 179) ("MAD") and therefore to implement into national law the objectives set by EU legislators. The regulations included in the draft will also enable the application of 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 (OJ L 173, 12.06.2014, p. 1, as amended) ("MAR") as well as enabling the implementation of Commission Implementing Directive (EU) 2015/2392 of 17 December 2015 on Regulation (EU) No 596/2014 of the European Parliament and of the Council as regards reporting to competent authorities of actual or potential infringements of that Regulation (OJ L 332, 18.12.2015, p. 126).

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 with current liquidity were there to be a build-up of large payments to clients. Management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Assets and Liabilities Committee (ALCO), which maps out a strategy later implemented by the Financial Markets Sub-Sector.

The main task of the Assets and Liabilities Committee is the 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 at the Bank, approves annual liquidity plans, plans for funding the Bank's assets and the Bank's liquidity limits, as well as liquidity contingency action plans. It also determines threshold values (limits) for various sources of funding and conducts regular reviews of liquidity risk reports.

The Bank's deposit base is stable and diversified. Furthermore, the Bank has a large portfolio of liquid securities, good access to interbank funding and a high level of own funds. The level of liquidity risk in 2016 was low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its clients and for 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 foreign exchange position. Market risk of the Bank's proprietary positions was low in 2016.

2.3 Interest rate risk

As is the case with other banks operating in Poland, 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 is 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. Conversely, 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 may arise when changes in market rates have an adverse effect on the valuation of instruments in the trading book 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 own funds. 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 2016 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 client'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 a change in 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 process of active portfolio quality management includes assigning appropriate ratings to exposures and their internal classification as well as recognizing impairment and taking remedial and debt collection measures. For credit exposures, the Bank makes impairment write-downs as required by law. The Bank's Management Board is of the opinion that the current level of impairment write-downs 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 clients always exists, there is no certainty that some future need for making impairment write-downs appropriate to the existing asset portfolio will not have an adverse effect on the Bank's financial position or that the impairment write-downs made and collateral established will prove sufficient to absorb the possible losses arising out of lending.

2.5 Operational risk

Operational risk is the risk of possible loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes reputation risk, the risk associated with operational events, business practices and 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 proper risk management at each stage (identification, assessment, counteraction, control, monitoring and reporting).

The Bank's Management Board is responsible for the development, implementation and operation of the appropriate operational risk management system by implementing appropriate internal regulations, and for ensuring the 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 to the operational risk profile. Where a need for change is identified, the operational risk management system is improved by making the appropriate corrections.

The implementation of the strategy by the Bank's Management Board 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.

Internal Audit 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 2016 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 its efforts on strategically important areas in which it has a significant competitive advantage, which makes it possible to offer the most attractive products and solutions to clients. In the consumer segment, it consistently places particular emphasis on credit cards as well as the services included in the range targeted at affluent clients. With respect to Commercial Banking, an important area are services for global companies and major domestic enterprises. Other areas of the Bank's active involvement include products related to the foreign exchange market, transactional banking and securities custody.

The Group focuses on the acquisition of new clients and on deepening relationships with existing clients. Both in the Commercial Bank and the Consumer Bank, its focus will be on the acquisition of operating accounts and selling more products to existing clients.

The pillars of the strategy adopted by the Group are the highest quality of customer service and innovation in its products and solutions. The continuing development of the technologies used and improvements to its product range allow the Group to maintain a leading position in the financial services market.

The successful implementation of the strategy adopted largely depends on the rate at which it adjusts to new market conditions and the clients' changing preferences. As a result, the Group has decided to proactively adapt to changes in its clients' habits – they visit branches less and less but are increasingly willing to use banking services via remote communication channels. To this end, the process of optimizing the distribution network was conducted, based on the concept of Smart outlets located in big cities. At the same time, considerable emphasis was placed on the development of remote channels and increasing sales using those channels.

The strategic goal of the Group remains to build shareholder value by improving operational efficiency and leveraging its market advantages of a strong capital and liquidity position.

1.1 Institutional banking

As concerns corporate and commercial banking, the Group's strategy is to strengthen its leadership in the provision of banking services to international corporations and the largest domestic companies. Enterprises from the SME sector are another group of clients that are important to the Group. Focusing on acquiring new clients while actively expanding relations with existing clients in selected sectors as well as providing support to clients planning international expansion (the Emerging Market Champions initiative) are keys to further building the Group's market position. The goal of the Group is to be the Strategic Partner for Polish companies and to actively support the expansion of Poland's industry. In terms of its product offering, the Bank also plans to further intensify cooperation with clients who have the potential to conduct foreign exchange transactions and who are looking for products in the field of trade finance.

Improving processes, focusing on innovations and raising the quality of services helps to make the Group more efficient. In this way, the Bank will be able to maintain its leading position in the field of foreign exchange transactions and in terms of the range of corporate operating accounts on offer.

1.2 Brokerage activity

The key factor that affects the performance of DMBH are trading in shares generated by institutional clients (both domestic and foreign). From the point of view of brokerage house activities, an important uncertainty factor are the planned changes to the pension system (replacing the 2nd pillar with Occupational and Individual Capital Plans). In addition, the lack of significant inflows of new money to domestic funds with exposure to the equity market largely reduces their demand for equity instruments.

Given the growing competition in, and decreasing potential of the domestic market, the Group sees opportunities to halt negative result trends in developing the retail brokerage business where consistent activities implemented jointly so far have enabled a significant increase in the materiality of the income obtained compared to the institutional segment. These activities have also resulted in the broad diversification of the risk of a further decline in income from brokerage activities.

1.3 Retail banking

In 2017, 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 online solutions for wealth management convenient for the clients. For these groups of clients, the Bank will continue to cooperate with other Citi entities in the world, providing the clients with unique experiences in the area of global banking.

The Bank will also focus on attracting the so-called aspiring affluent clients by developing the Citi Priority offering especially 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 the global Citi product range, which are accepted all over the world and offer exceptional value for the client, e.g. in the form of loyalty programs. An important objective will be also to increase the market share of unsecured loan products by meeting the credit needs of the growing number of clients with a competitive offering of cash loans or instalment products as well as innovative, fast processes.

Given the need for a simple and quick handling of finances, the Bank will continue to invest in developing new technologies and improving the mobile and Internet platforms. In addition, the Bank intends to continue to pursue the strategy for the network of consumer 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 ones. All the Bank's operations are undertaken in accordance with the needs of its clients and the communities in which it operates.

The Bank's activity in the field of CSR includes workplace and market environment, local communities and the environment protection. The strategic goal is to become the company defining the standards of 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 Leopold Kronenberg Foundation at Citi Handlowy, which was founded in 1996. 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 customer 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. Clients may use such outlets to conduct financial transactions, withdraw/deposit cash using foreign currency ATMs, obtain a credit card or learn, using an interactive screen, about special discount offers for Citi Handlowy card holders at nearby boutiques.

Citigold clients were also introduced to a new, more convenient way of executing investment transactions. Since mid-2016, during a meeting with their Relationship Managers they have been able to browse and analyse their portfolio and to approve agreements using a tablet, which means that such conversations may now take place at any location that is convenient for the client and not only at the branch. We have also opened more product purchase possibilities – while maintaining the highest security standards – for clients who prefer to talk to their Relationship Manager on the phone.

Following feedback from clients, we are also implementing a plan to develop the Citi Mobile application with respect to its functionalities and the manner of executing transactions. One of the major changes introduced in the last year was launching notifications that inform clients of transactions in real time, without the need to log into the application. Clients appreciate this option as an excellent security feature that gives them a sense of comfort and even more control over daily finances.

Additionally, responding to the growing popularity of social media and the clients' increased activity on the bank's Facebook profile, the Bank constantly develops the services provided via this channel and shares the most important information with its fans. No question is left unanswered and the Bank's response is almost immediate, which is confirmed by the fact that Citi Handlowy leads the So Trender ranking.

Accurate information – advertising ethics

For over six years, the Bank has consistently pursued the strategy of transparent client communication and matching its product range to the clients' needs. Communication requirements have been set as part of projects like „Treating Customers Fairly" and they must be met during product campaigns. Therefore, despite a rapidly changing market environment, we are certain that our product communications are accurate and transparent. We guarantee the 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 consumer banking clients on a regular basis. The NPS (Net Promoter Score) is the key service quality indicator. The NPS indicator makes it possible to gauge the 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) and "moments of truth" (key interactions, e.g. product purchases). 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. Comments that need clarification, additional questions or conversation with the client are not left unanswered – Gold Branch Managers call clients back immediately after receiving them. Owing to our disciplined approach, we managed to improve the score in respect of key NPS indicators in 2016. This level of commitment to working with feedback from clients inculcates the culture of even more responsibility for the experience and products offered by the Bank among its staff.

Citi Handlowy credit cards and Priority account were also rated the best by clients in the Bank's survey concerning recommendations in the Polish market (within the framework of the Top Down NPS survey conducted by ORC for the Bank).

Miguel Mendes who headed Client Experience Management received the greatest accolade – the title of the Marketing Head of the Year 2016 – as a result of many activities, including innovative marketing campaigns pursued online, in social media and on television. This industry award reflects all the efforts made in 2016 in order to adapt the Bank's communication and offerings to the clients' needs most effectively.

The many awards and distinctions received in 2016 also testify to the Bank's strong position in creating a product range that matches 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.

Moreover, the Citi Simplicity card was awarded the Golden Banker award in the best credit card product category. In the 7th edition of the ranking, the cash loan and mortgage loan products were also ranked third in their respective categories. Citi Handlowy received, for the second time, the highest rating for its private banking arm in the prestigious rating compiled by the Forbes magazine.

Complaints

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

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

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

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

The capabilities of contacting the Bank in connection with daily services 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 the 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 the 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 the 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 and holds certificates of conformity to the ISO 27001 and ISO22301 standards which cover 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 to its employees a safe and friendly workplace, where they can work, engaging their energy and having a sense of their personal achievement, satisfaction and opportunities for personal development. The development of employees is supported by the implementation of such measures as training, commitment to the demanding projects, as well as the evaluation process, whereby employees receive feedback on their strengths and areas that still need to be improved. The Bank has in place a personnel policy, accompanied by documented, measurable and regularly monitored goals.

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

In addition, the Bank provides employees with 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 balancing 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 its employees in a survey called the Voice of Employee. The survey is the study of employee satisfaction and engagement. Participation in the survey is voluntary. The questions that employees respond to relate, among others, to: communication, development opportunities, meritocracy, relations with superiors and colleagues, taking part in decisions, the balance between professional and personal life as well as the diversity of values and ethical principles that guide the Bank.

Filling the surveys is the first stage of activities related to the work on the study of sentiment among employees. The next stages are the analysis of the results, group interviews designed to gain deeper insight into the results and the preparation of action plans improving the survey, implementation and communication of results to employees. In 2016, the survey questionnaire was completed by more than 88% of eligible employees.

Diversity in the workplace

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 differences between them.

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 their dignity regardless of their 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 of the international "Diversity Charter" initiative, 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 holds the Diversity Week during which employees are invited to participate in activities such as workshops, training sessions and panel discussions.

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

The mission of CitiWomen is to create favorable conditions for 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 of CitiWomen Poland (CWP) include supporting women working at Citi & Citi Handlowy in Poland in the discovery and release of their potential by providing additional training opportunities, networking and the exchange of experiences, as well as the discovery and development of women's talents and helping to improve leadership skills. The mission of CitiWomen Poland is pursued 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 at 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 leisure, including diverse cultural, sports and tourist activities. The club promotes a broad integration of employees, which affects their sense of job satisfaction. Within CitiClub, „Citi Socially Active" sporting projects are held in combination with charitable collections for the needy.

Dialogue and freedom of association

There are two trade unions in the Bank: "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.

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

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

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

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

Employee voluntary work programme

The Bank has the largest employee volunteer program in Poland coordinated by the Leopold Kronenberg Foundation at Citi Handlowy. It aims to encourage community initiatives of the Bank's current and former employees. In 2016, a record number of 256 volunteer projects for more than 33,000 recipients were completed. Volunteers (including from outside the organization) engaged in social activities 3,734 times. As part of their activities they supported local communities, residential institutions, community organizations, local government units and animal shelters. The key initiative in the last year was the 11th edition of the Citi Global Community Day. Every year, the Bank's employees and their families and friends try to respond to specific needs in communities close to them within the framework of this project. In 2016, Citi volunteers carried out 217 social projects for the benefit of more than 31,000 recipients during the Citi Global Community Day.

In 2016, key projects, i.e.: the Christmas "Become Santa's Assistant" action and 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 within the framework of regularly sent proposals for individual volunteering.

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

In 2016, the Leopold Kronenberg Foundation at Citi Handlowy conducted a survey among Citi volunteers for the fifth time. The purpose was to measure satisfaction derived from community work so far and to determine expectations with respect to participation in the Program and the benefits of engaging in volunteering (both for employees and for the employer). In addition to the satisfaction derived from helping others, volunteers also recognize that the implementation of projects brings them professional benefits. Those surveyed state that volunteering has had a positive impact on their motivation, and 53% also believe that it enables them to derive greater satisfaction from their daily work. More than 76% of respondents perceive volunteering as a reason to think of their company more favorably. 73% believe that Citi is a socially responsible company, and 82% think that it is guided by high ethical standards.

Since 2015, the results of Citi volunteers' efforts within the framework of its largest social campaign – the Citi Global Community Day – have been measured in a survey targeted at partner organizations. The survey conducted in 2016 demonstrated that all partners were satisfied with their cooperation with Citi volunteers and declared their willingness to continue the partnership. As many as 99% of respondents were definitely satisfied with the project implemented. The same percentage confirmed the achievement of the goals set. In the case of 75% of organizations, a decrease in organizational costs was observed, and 27% reported a large impact of cooperation with qualified Citi staff on streamlining management processes within their organization (e.g. in the IT, HR and finance areas). All respondents would strongly recommend working with Citi volunteers to other organizations.

In addition, the Leopold Kronenberg Foundation at Citi Handlowy together with the National Cultural Centre and the Centre for Thought of John Paul II organized the "Volunteering in Culture" nationwide conference, which was held from 5 to 7 December 2016 at Teatr Wielki – Opera Narodowa (Grand Theatre – National Opera). It was the first such event, enabling experts and practitioners to share knowledge in the field of volunteer management at cultural institutions with participants. Citi volunteers took an active part in the conference, participating in panels and sharing their experience in conducting social projects as well as assisting in the organization of the event. The conference was attended by representatives of 108 institutions from 40 cities. It was also accompanied by the first edition of the Tickets for Volunteers event. From 3 to 12 December, 65 institutions from 12 cities across Poland made more than 2,500 tickets for training courses, workshops, performances, film screenings and exhibitions available to volunteers.

1.3 Environmental initiatives

One of the important rules of conduct at the Bank is taking care for the environment. The Bank is committed to conducting its business in accordance with the principles of sustainable development. In 2007, a resolution of the Management Board introduced a comprehensive Environmental Management Plan. In 2012, the Management Board accepted the Environmental Policy and implemented the Environmental Management System (EMS). In 2013, the Management Board introduced the Energy Policy and implemented the Energy Management System (EMS). In 2015, the two systems were integrated into a single Environment and Energy Management System (EEMS). As part of the policies in place the Bank defined the following objectives: increasing the level of waste sorting and recycling; reduction of CO2 emissions, striving to optimize utilities consumption; 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 for the consumption of electricity, water, gas, heat and the amount and type of waste generated and greenhouse gas emissions.

From 2012 to 2016, the Bank implemented a number of environmental projects involving upgrades of installations and building facilities: among others, upgrades of air conditioning installations, including precise ones, a system for recovering rainwater, introducing waste sorting at all major Bank buildings as per sorting guidelines, upgrading heat exchanger stations, BMS automation, installing card-controlled air conditioning switches in conference rooms, upgrading and replacing elevators with new ones fitted with energy recovery systems, changing building lighting to LED fixtures, building bicycle sheds for staff, arranging green areas around main buildings and improving the thermal insulation of buildings: replacing windows and other upgrades. As part of EEMS procedures, the effects of the efforts implemented are regularly analyzed and studied; these measures have confirmed the effectiveness of the system in reducing the consumption of utilities.

In 2015, the efforts implemented brought tangible results for the Bank and for the environment, i.e. a reduction in electricity consumption by 7,137.86 MWh compared to 2014 and by 27,684.42 MWh per year compared to 2012, which was reflected in a reduction in CO2 emissions by 713.8 tonnes compared to 2014 and by 2,768.4 tonnes compared to 2012. In addition, water consumption was reduced by 6,075 m3 compared to 2012; in relation to 2014, however, it increased, with the figure being -74m3. In 2015, heat energy consumption was reduced by 616.24 GJ relative to 2014 and by 6,222.46 GJ compared to 2012.

Both in 2015 and 2016, the Bank successfully passed a supervisory audit concerning the conformity of the Environmental and Energy Management System to the requirements of the ISO 14001 standard and re-certification audit concerning the conformity of the Environmental and Energy Management System to the requirements of the ISO 50001 standard. The results of the audit confirm the efficient operation of the EEMS and the achievement of its objectives.

Employee education

The Bank carries out educational and information campaigns on environmental protection addressed to employees and service providers. These include training and communications as well as articles made available on intranet sites to encourage proper segregation of waste, saving energy and water, and spreading knowledge of the Environment and Energy Management System. Every year, the Bank also takes an active part in the Earth Hour and the Earth Week actions. In 2015, during the Earth Hour, power was turned off in 16 branches; in 2016, more buildings and branches joined. During the Earth Week in 2016, there was a Hybrid Car Town where employees could test such vehicles for one week. On the company intranet, announcements were published concerning the environmental projects implemented within the framework of the EEMS, waste sorting and consumption of natural resources. The Bank took part in the „My city without electro-waste" campaign – it purchased and placed containers for electro-waste for employees in the buildings. For the electro-waste collected, the Bank received vouchers, which it gave to a school in Warsaw for the purchase of teaching materials and aids for students.

Indirect environmental impact

Under the agreement signed with the Kreditanstalt für Wiederaufbau (KfW) bank and using EU funds, in 2016 the Bank offered to its clients repayable and non-repayable financing (grants) from the ELENA (European Local Energy Assistance) program, which was implemented by KfW in other EU Member States as well as part of a wider Community initiative – the IEE II (Intelligent Energy Europe) Program. The program supported local or regional authorities and other public entities fulfilling statutory tasks of local or regional authorities in order to meet the assumptions of the 20-20-20 strategy and was designed to facilitate the financing of energy efficiency projects by local authorities. In 2016, a project was implemented that involved the thermal efficiency improvement of 17 multi-family residential buildings belonging to a municipality that was a BHW client. According to project assumptions, the implementation of the project should result in annual energy savings of 2,270 MWh for the upgraded buildings.

1.4 Local community involvement and development

The Leopold 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 considerable attention to the development of local communities. In 2016, the Foundation celebrated its 20th anniversary. It was established in 1996, on the 125th anniversary of the establishment of Bank Handlowy w Warszawie S.A. Within two decades, its financial education programs benefited more than 2,300,000 direct participants from different age groups: children, youth, adults and seniors. We awarded 1,339 grants to more than 1,000 non-governmental organizations.

The Foundation coordinates one of the largest and oldest employee volunteering schemes in Poland (established in 2005). Since the beginning of the program, Citi Handlowy volunteers have been involved in 20,200 voluntary activities, worked 111,000 hours and helped more than 240,000 beneficiaries. Every year, the program covers nearly 250 outlets, and around 23% of Citi staff are involved in volunteering.

Protection of cultural heritage is one area in which the Foundation is active. As part of its program of recovering works of art, 42 prints and lithographs by outstanding Polish painters (Juliusz

Kossak, Leon Wyczółkowski) and two paintings (by Anna Bilińska--Bohdanowiczowa and Wojciech Gerson) returned to Poland. 172 exhibits from a collection of silverware were recovered as well. The Aleksander Gieysztor Award was given to 17 individuals and institutions in recognition of their efforts aimed at the protection of Polish cultural heritage. In 2016, the ArtSherlock application was launched, which enables the automatic identification of artworks solely on the basis of a photograph taken with a mobile phone. It was downloaded 7,000 times and made the list of 50 best applications of 2016 compiled by the Esquire magazine, and the list of the best iOS applications of 2016 compiled by the Antyweb blog.

Leopold Kronenberg Foundation at Citi Handlowy programs

The Citi Handlowy Emerging Market Champions Award was established to promote companies which have successfully expanded into international markets. The project includes a survey of the business climate in Poland and the global potential of domestic companies. The award ceremony of the third edition of the competition took place on 29 September 2016 during the European Forum for New Ideas in Sopot. Amica S.A. was named the Emerging Market Champion in the "Polish Foreign Investment" category, and the winner in the "Foreign Investment in Poland" category was CEMEX Polska sp. z o.o. The project involved the third edition of a survey diagnosing the operation of Polish companies abroad. This concerned their methods of selling abroad.

The Aleksander Gieysztor Award is the most prestigious award given annually to institutions or individuals in recognition of their efforts for the protection of Polish cultural heritage. Winners of the 17th edition were Krystyna Zachwatowicz-Wajda and Andrzej Wajda. They were honored for promoting Polish culture with their outstanding achievements in the fields of film and theater as well as for increasing public awareness of the need to protect cultural heritage in Poland and their efforts aimed at its preservation and popularization.

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 May 2016, the Leopold Kronenberg Foundation at Citi Handlowy launched the Art Sherlock application. It is an original project of the Communi Hereditate Foundation implemented in cooperation with the Ministry of Culture and National Heritage and the Leopold Kronenberg Foundation at Citi Handlowy. This is the first solution of its kind, which will completely revolutionize the identification of works of art that were plundered during wars. The application will enable the automatic identification of artworks solely on the basis of a photograph taken with a mobile phone.

Roots is a program under which the Foundation promotes the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In 2016, the measures initiated in previous years were continued. Since 2014, the digital archive created within the framework of the "Roots" program can be used for the Foundation's and the Bank's internal purposes. The archive contains more than 31,000 pages of scanned documents and pictures concerning the activities of Bank Handlowy and of the Kronenberg family. These materials are used for promotional purposes on special occasions – anniversaries related to the Bank and to Leopold Kronenberg.

Employee Volunteering Program of Citi Handlowy aims to promote the social commitment of present and former employees of the Bank. In 2016, the 11th edition of the Citi Global Community Day was held. During the Community Day, 217 projects were implemented. Citi volunteers and their friends and acquaintances were engaged nearly 3,734 times, helping more than 31,000 people.

The 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 2016, 7 grants were allocated.

Programs implemented with the support of the Citi Foundation

My Finances: is the largest financial education program for young people in Poland. The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Junior Achievement Foundation Poland (Fundacja Młodzieżowej Przedsiębiorczości). In 2016, the number of students covered by the program amounted to 90,000. The program was pursued by 1,600 teachers.

Week for Saving: an educational action in the media which promotes savings and the skills of rationally managing personal finances among Poles. It is implemented together with the Think! Foundation. The goal of the action is to achieve systemic changes in the education area focused on the management of personal finances. The media campaign on the occasion of the 9th edition of the "Poles' attitudes to finances" survey reached nearly 3,000,000 people. Under the project, additional surveys were conducted on Christmas spending in Poland as well as on the Poles' entrepreneurial competences. Their results will be published in 2017.

Be Entrepreneurial is a financial education program addressed to upper secondary school students. It is carried out in collaboration with the Junior Achievement Foundation Poland (Fundacja Młodzieżowej Przedsiębiorczości). Its objective is to provide learning opportunities and teach students the attitudes and skills in the area of broadly defined entrepreneurship by founding and running businesses in the legal form of a general partnership. 2,640 students from 220 schools participated in the program in 2016.

"Business Startup" Program: a two-part program which supports young entrepreneurs (providing 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 visions come true. In 2016, the program was attended by 200 students and 100 start-ups already operating on the market.

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 2016, the third edition of the program began, which will be completed in mid-2017.

Hi-Tech Startup is a project implemented by the Leopold Kronenberg Foundation at Citi Handlowy in cooperation with the Academic Business Incubators and the Institute of Applied Research of the Warsaw University of Technology. 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 start their own businesses. After passing a rigorous screening process, 10 projects were identified as "ready investments". During the final gala of the project in June 2016, the three most promising startups had their presentations.

2. Cultural patronage and sponsorship

In mid-March, the **Smart City Forum** conference was held in Warsaw – an event that is the response to the global transformation now underway with respect to the construction and operation of smart cities. Citi Handlowy was a partner of the **Smart City Grand Gala**, during which awards for achievements in 2015 were presented. One of the awards (in the Person of the Year category) was presented by Member of the Management Board of Citi Handlowy Mr. Czesław Piasek. It went to the President of Rzeszów Mr. Tadeusz Ferenc who has initiated the rapid development of his city. The conference also featured a speech by Head for Co-Operation with the Public Sector Mr. Radosław Szewczak on the financing of Smart City investments and Smart banking solutions.

In May and June 2016, a series of debates were held under the auspices of the Puls Biznesu daily as part of the seventh edition of the **"Time for Economic Patriotism"** program, which brings together representatives of political and business circles, including representatives of Citi Handlowy. The Bank was a partner of the initiative once again. The inaugural debate was attended by President of the Bank's Management Board Mr. Sławomir S. Sikora, and the panel devoted to attracting foreign investors featured Head of Global Subsidiaries Group at Citi Handlowy Mr. Jacek Czerniak. The special supplement of Puls Biznesu also included a statement by the Head of Strategic Client Department Mr. Piotr Kosno.

During the European Economic Congress in Katowice in May and the Economic Forum in Krynica in September, Citi Handlowy was a partner of the **AmCham Dinner**. During the Forum in Krynica, President of the Bank's Management Board Mr. Sławomir S. Sikora took part in the "Transatlantic Business Bridge" debate held by the American Chamber of Commerce. He took part in the discussion, which included, among others, the Minister of Foreign Affairs Mr. Witold Waszczykowski, and a representative of the American Embassy – Senior Commercial Counselor Mr. Charles Ranado. During the meeting, which lasted more than one hour, topics related to trans-Atlantic economic cooperation, Polish companies investing in the U.S. and expectations for the TTIP (Transatlantic Trade and Investment Partnership) were discussed. Head of Global Subsidiaries Group Mr. Jacek Czerniak attended the discussion on the results presented in the "Polish Startups 2016" report.

During the **European Forum for New Ideas (EFNI)**, which took place in Sopot in the last days of September 2016, awards in the third edition of the Emerging Market Champions competition organized by the Leopold Kronenberg Foundation at Citi Handlowy were presented. The winners were CEMEX Polska sp. z o.o. and Amica S.A. The award ceremony was accompanied by a debate on the challenges now faced by emerging economies, which was attended by Mr. Marek Belka – former Prime Minister and President of the National Bank of Poland, Mr. Jerzy Hausner – former Deputy Prime Minister and Member of the Monetary Policy Council, Mr. Grzegorz Kołodko – former Deputy Prime Minister and Minister of Finance and Citi's Global Economist Mr. Ebrahim Rahbari. The debate was facilitated by Member of Citi Handlowy Supervisory Board Mr. Andrzej Olechowski who also chaired the Chapter of the Emerging Market Champions Competition.

On 29 and 30 September 2016, Citi Handlowy was the partner of the **"Engineering the Future 2016"** event – a scientific and industrial conference on innovative technical and organizational solutions for the industry held by the Institute for Sustainable Technologies – National Research Institute.

In October 2016, the Koźmiński University in Warsaw held the **"What Future for the Polish Economy?"** conference attended by Deputy Prime Minister Mateusz Morawiecki and former Deputy Prime Ministers responsible for economic policy. Citi Handlowy was a partner of the conference. The purpose of the conference, which was organized by the TIGER Center for Transformation, Integration and Globalization, was to discuss the internal and external conditions of, and prospects for the development of the Polish economy. The debate was attended by experienced economic policy practitioners as well as academics involved in economics, management, finance, banking and law.

In mid-November 2016, Citi Handlowy supported the **Open Eyes Economy Summit** conference as its partner. During the event, the President of the Bank's Management Board Mr. Sławomir S. Sikora attended the inspirational session "Value for the Bank, Value for the Client" together with the presidents of two other major banks. After that, he took part in a question and answer session with the representatives of the Management Boards of ING, mBank and Deutsche Bank, which also featured the former Chair of the Polish Financial Supervision Authority Mr. Andrzej Jakubiak. On the second day of the conference, Member of the Bank's Management Board and Head of the Operations and Technology Sub-Sector Ms. Katarzyna Majewska participated in an inspirational session devoted to cybersecurity.

In 2016, Citi Handlowy supported the development of golf in Poland as a partner of the Polish Golf Association.

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 at least 5% of share capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group and focused on its foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2016, 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 shares representing 25% of the share capital) are free floating, which means that they are publicly traded and listed on the Warsaw Stock Exchange (WSE).

Among shareholders participating in the share capital of the Bank are open-end pension funds which, in accordance with public information about the structure of assets as at 31 December 2016, held a total of 13.93% of shares of the Bank, which was a decrease of 0.14 p.p. against 31 December 2015.

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

Shareholder	31.12.2016		31.12.2015	
	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
Nationale - Nederlanden OFE (previous ING OFE)	5,041,389	3.86%	5,096,781	3.90%
Aviva OFE Aviva BZ WBK	4,028,293	3.08%	4,072,554	3.12%
OFE PZU „Złota Jesień"	2,066,895	1.58%	2,089,605	1.60%
MetLife OFE	1,422,669	1.09%	1,438,301	1.10%
AXA OFE	1,284,269	0.98%	1,298,380	0.99%
Allianz Polska OFE	1,073,285	0.82%	1,085,078	0.83%
Aegon OFE	877,426	0.67%	887,067	0.68%
Nordea OFE	683,429	0.52%	674,387	0.52%
Generali OFE	551,014	0.42%	557,068	0.43%
PKO BP Bankowy OFE	467,208	0.36%	396,916	0.34%
Pekao OFE	363,785	0.28%	344,193	0.30%
OFE Pocztylion	340,452	0.26%	446,516	0.26%
Total	**18,200,114**	**13.93%**	**18,386,845**	**14.07%**

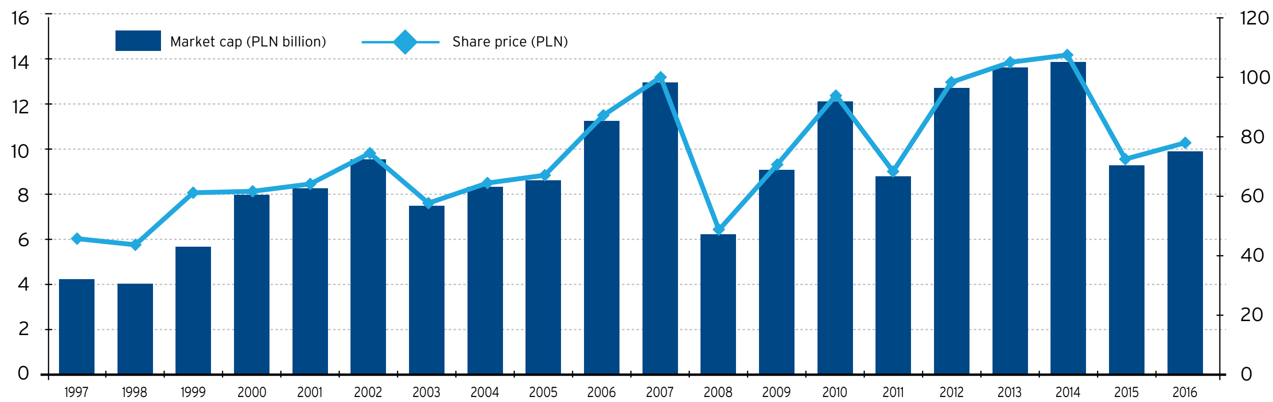
Source: Annual information about the structure of assets of Open Pension Funds Bank share closing price at the end of the period.

1.2 Performance of the Bank's shares on the WSE

In 2016, the Bank was included in the following indices: WIG, mWIG40, WIG Banks and WIGdiv. Additionally, the Bank has been present, since it was first compiled, in the RESPECT Index including socially responsible companies listed on the WSE Main Market.

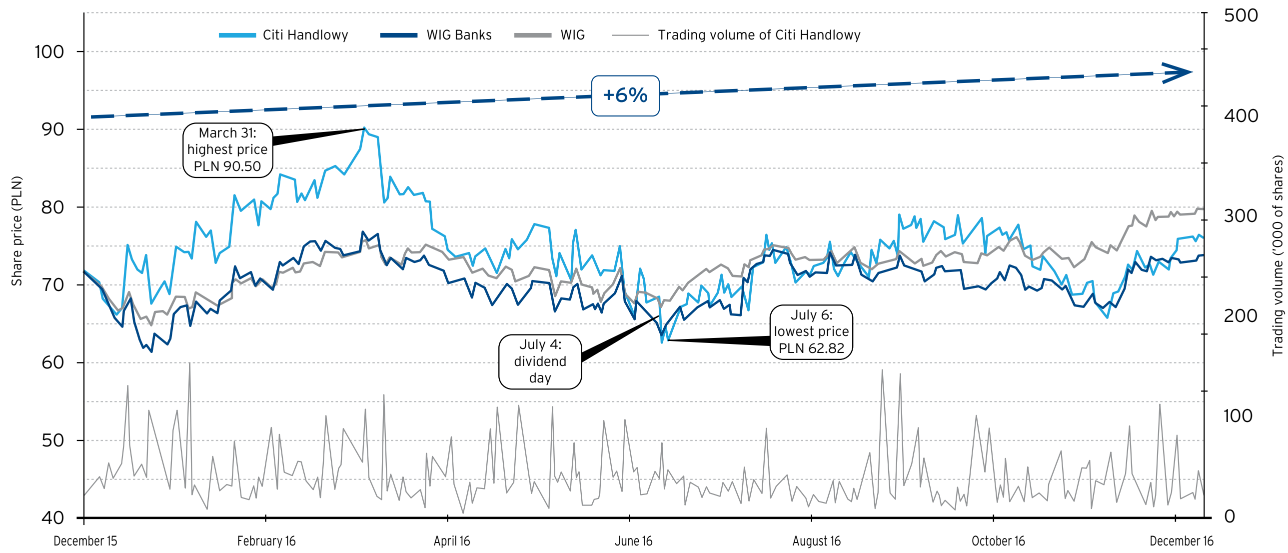
In 2016, all main WSE indices gained compared to 2015. The price of the Bank's shares also increased. The Bank's shares closed on the last session in 2016 (i.e. 30 December 2016) at PLN 76.39, i.e. 6% higher as compared to the level as at 30 December 2015, which amounted to PLN 71.90. In the same period, the WIG and WIG-Banks indices advanced by 11% and 3% respectively.

Market capitalisation and share price of Citi Handlowy since its debut on the WSE (end-of-period data)



The capitalization of the Bank at the end of 2016 stood at PLN 10.0 billion (compared to PLN 9.4 billion at the end of 2015). Stock market indices amounted to: price/earnings (P/E) – 16.5 (in 2015: 15.0); price/book (P/B) – 1.5 (compared to 1.4 in the previous year).

The Bank's share price and trading volume in 2016 vs. comparable WIG-Banks and WIG indices
(2016/12/30=PLN 76.39)



The price of Bank shares in the first three months of 2016 showed a clear upward trend. In March, the Bank's share price reached its maximum level in 2016, i.e. PLN 90.50. In the later part of the first half of 2016, the Bank's shares were in a downward trend which stopped in July. On 6 July 2016, the price of the Bank's shares dropped to the lowest level in 2016, i.e. PLN 62.82. In the second half of 2016, the share price rose. Finally, on 30 December 2016, the price equaled PLN 76.39.

The Bank's average share price in 2016 was PLN 74.82 and the average daily volume of trading in the Bank's shares was slightly higher than 41,500.

2. Dividend

On 14 March 2017, the Management Board adopted a resolution on the proposed distribution of net profit for 2016 and recommended to allocate for the payment of the dividend 98.0% which is PLN 4.53 per ordinary share.

The final decision on the distribution of net profit for 2016 will be made by the General Meeting of the Bank.

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

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	971,422,828	7.43	7.43	99.9%
2015	611,486,928	4.75	4.68	98.6%
2016***	591,887,988	4.62	4.53	98.0%

Dividend-payout ratio for 2004 - 100% plus prior year profits

*** On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008*

*** As recommended by the Management Board on March 14, 2017.

3. Rating

As at end 2016, the Bank was fully rated by an international rating agency: Fitch Ratings ("Fitch").

On 9 November 2016, as a result of the annual review of credit ratings, Fitch upgraded the Bank's Viability Rating to "a-" from "bbb+". As rationale for its Viability Rating upgrade, the Agency stated in its announcement that the Bank's rating took into account its conservative business model, low risk appetite and strong capital and liquidity buffers. Other ratings remained unchanged. At the same time, the Bank was assigned two new ratings:

- National Long-Term Rating at "AA + (pol)";
- National Short-Term Rating at "F1+ (pol)".

As at the end of 2016, the Bank had the following ratings awarded by Fitch:

Long-term entity ranking Long-term rating outlook	A- stable
Short-term entity ranking	F1
Viability rating*	a-
Support rating	1
National long-term rating	AA+ (pol)
National short-term rating	F1+ (pol)

** The 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 2016

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 principles approved by the Warsaw Stock Exchange ("WSE"), originally published as the "Best Practices at Public Companies 2002", and subsequently amended by the following documents: "Best Practices at Public Companies 2005" and "Best Practices for WSE Listed Companies 2008", and finally, as of 1 January 2016, "Best Practices for WSE Listed Companies 2016" ("Best Practices"), available at www.corp-gov.gpw.pl, the official website of Giełda Papierów Wartościowych w Warszawie S.A. dedicated to corporate governance at the companies listed on the WSE Main Market and on the NewConnect market.

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 Bank's operations, and especially of the relationships between the Company's statutory bodies and their processes, caused the Bank to adopt the best practices as set forth in the Best Practices.

The Bank continues to undertake initiatives to achieve better transparency of the Bank's organization, division of rights and responsibilities and the operation of its governing bodies and their mutual relationships. To this end:

- The Bank has published its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;
- The Supervisory Board includes independent members;
- As part of the Supervisory Board, Audit Committee has been established, which is composed of at least two independent members of the Supervisory Board, one being the Committee's Chair;

• 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 2016

In 2016, the Bank did not apply the following rules and recommendations arising from the Best Practices:

a) Rule VI.Z.2. concerning the determination of the period between the award of options or other instruments linked to company shares under an incentive scheme and the possibility of exercising such options or instruments, which should be a minimum of two years;

b) Recommendation IV.R.1. concerning the holding of the annual general meeting of the Bank in 2016 as soon as possible after the publication of the annual report;

c) Recommendation IV.R.2 points 2) and point 3) concerning enabling shareholders to participate in the general meeting by using means of electronic communication, in particular through two-way real time communication where shareholders are able to speak during the general meeting from a location other than the venue of the general meeting and are able to exercise, in person or by proxy, their voting rights during the general meeting.

- Rule VI.Z.2. Best Practices for WSE Listed Companies. The incentive schemes implemented at the Bank, including deferred cash remuneration and programs based on financial instruments, i.e. phantom shares, are in line with best practices for the banking sector and the requirements set forth in PFSA Resolution No. 258/2011 of 4 October 2011 and in the Banking Act, which implement CRD III and CRD IV. These regulations include slightly different requirements than those set forth in the Best Practices for WSE Listed Companies 2016. The Bank's incentive programs, which are based on the above regulations, reflect the specific features of the banking sector and are designed to protect the interests of the Bank's clients and shareholders as well as ensuring its stable growth. Details on incentive schemes are available in the Bank's annual report as well as in the Information concerning the capital adequacy of the Group of Companies of Bank Handlowy w Warszawie S.A. Depending on the provisions included in the regulations and laws on broadly understood remuneration policy in the banking sector, the Bank will consider amending its incentive schemes based on financial instruments.
- Recommendation IV.R.1. Best Practices for WSE Listed Companies. The Bank's calendar of corporate events in 2016 was determined prior to the entry into force of the "Best Practices for WSE Listed Companies 2016", i.e. before 1 January 2016. Thus the Recommendation was not followed in the case of the Annual General Meeting held in 2016.
- During the Annual General Meeting held on 21 June 2016 and during the Extraordinary General Meeting held on 22 September 2016, Recommendation IV.R.2. points 2) and 3) of the Best Practices was not followed. When assessing its ability to apply the recommendation, the Bank considered legal, organizational and technical risks related to providing shareholders personally absent at the GM with bilateral real-time communications, using means of electronic communications, which may adversely affect the progress of the GM. In the Bank's opinion, the possibility of exercising voting rights in the course of an electronic General Meeting using electronic means of communication raises objections and generates an increased risk of irregularities in the conduct of the General Meeting. Currently available technologies do not guarantee secure distance voting, which may affect the validity of the resolutions adopted, and thus result in 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 ones caused e.g. by regional problems related to individual components of the public Internet network.

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

By Resolution dated 22 July 2014, the Polish Financial Supervisory Authority issued a document entitled Corporate Governance Principles for Supervised Institutions ("Principles"). The text of the Principles is available on the www.knf.gov.pl/dla_rynku/zasady_ladu_korporacyjnego/index.html website, which is the official website of the Polish Financial Supervision Authority.

It is a set of principles that define the internal and external relations of institutions supervised by PFSA, including investor relations, client relationships, their organization, internal governance as well as the key systems and internal functions, statutory bodies and their cooperation.

The purpose of the Principles is to increase the level of corporate governance in financial institutions, in addition to improving transparency of their operations, which is intended to contribute to building trust in the financial market in Poland.

Bank Handlowy w Warszawie S.A. reviews the application of the Principles of Corporate Governance for Supervised Institutions on a regular basis.

On 25 February 2016, the Management Board of Bank Handlowy w Warszawie S.A. approved the Compliance Report containing an independent review of the application of the Corporate Governance Principles for Supervised Institutions.

On 26 February and 10 March 2016, the Audit Committee of the Supervisory Board, having reviewed the Compliance Report containing an independent review of the application of the Corporate Governance Principles for Supervised Institutions, recommended the Supervisory Board to approve the Report and to adopt for application in 2015 the rules arising from the Corporate Governance Principles for Supervised Institutions, with the exception of the principles in respect of which a decision has been made not to apply them.

On 11 March 2016, the Supervisory Board approved the Compliance Report containing an independent review of the application of the Corporate Governance Principles for Supervised Institutions. Relying on the Report and taking account of the positive recommendation from the Audit Committee of the Supervisory Board, the Supervisory Board reviewed the application of the Corporate Governance Principles for Supervised Institutions in 2015, with the exception of the principles in respect of which a decision has been made not to apply them. The results of the independent review of the application of the Principles were communicated to the other governing bodies of Bank Handlowy w Warszawie S.A.

The Ordinary General Meeting of Shareholders:

• By Resolution No. 3/2016 of 21 June 2016, having examined the Management Report of Bank Handlowy w Warszawie S.A. for 2015 including the Corporate Governance Statement for 2015, the OGMS decided to approve the Management Report of Bank Handlowy w Warszawie S.A. for 2015 including the Corporate Governance Statement of the Management Board for 2015.

• By Resolution No. 4/2016 of 21 June 2016, the OGMS approved the Supervisory Board Report of Bank Handlowy w Warszawie

S.A. for the period from the OGMS held in 2015 to the OGMS held in 2016, including the reports and reviews prescribed in the Corporate Governance Principles for Supervised Institutions in place at the Bank.

In accordance with the requirements of the Corporate Governance Principles for Supervised Institutions and the information policy in place at the Bank, following the independent review of the application of the Corporate Governance Principles for Supervised Institutions by the Supervisory Board of Bank Handlowy w Warszawie S.A., the Bank publishes information on the application of the Principles and exclusion of certain Corporate Governance Principles on its website.

With regard to three principles, a decision was made not to apply them:

1) para. 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.
2) para. 8.4 (electronic general meeting) – the IT solutions which are currently available do not guarantee the security and efficiency of electronic general assemblies. However, the Management Board does recognize the relevance of this form of shareholders' participation in the Bank's general meetings and therefore a separate decision in this regard will be taken prior to each general meeting.
3) para. 16.1 (Polish as the language of Management Board meetings) – 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 Management Board meetings as well as any and all materials and minutes of the meetings are drafted and archived in Polish.

4. Description of main features of internal control and risk management systems in place at the Bank with respect to the process of preparation of financial statements and consolidated financial statements

The financial statements of the Bank are drawn up by the Financial Reporting, Control and Tax 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 Bank's Management Board.

The process of drawing up the financial statements is covered by the Bank's internal control system aimed at ensuring the accuracy and fairness of the data shown in the Bank's financial statements. The internal control system includes the 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 in the Financial Sector covers accounting policy and financial reporting. The quarterly Risk and Control Self-Assessment (RCSA) ensures an evaluation of control processes and represents a proactive, efficient key risk management process, integrated with the process of drawing up the financial statements. The quarterly RCSA process is a 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 Internal Audit. Internal Audit 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 the effectiveness of the management of risks related to the activities of the Bank. Internal Audit 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. Internal Audit is a separate organizational unit of the Bank, reporting directly to the President of the Bank's Management Board.

The Supervisory Board of the Bank exercises supervision over the internal control system and the operations of Internal Audit. 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 Internal Audit 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 the 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 Internal Audit has the right to participate in meetings of the Management Board and of the Supervisory Board at which issues related to the Bank's internal controls 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.

6. Holders of all securities with special control rights together with a description of those rights

The Bank did not issue any securities that would give special control rights to shareholders.

7. Restrictions on the exercise of voting rights

No restrictions on the exercise of voting rights have been provided for at the Bank.

8. Restrictions on the transfer of ownership of the securities

No restrictions on the transfer of ownership of the securities issued by the Bank have been introduced at the Bank.

9. 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 and the member of the Management Board who manages the risk at the Bank requires the approval of the Polish Financial Supervision Authority.

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

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

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

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

The following persons are authorized to submit matters for consideration by the Management Board:

1) President of the Management Board;
2) other members of the Management Board;
3) heads of other organizational units with respect to 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 determining 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.

As part of the internal division of powers within the Bank's Management Board:

1) the position of the member of the Management Board who oversees the management of material risks in the Bank's operations has been distinguished;
2) Internal Audit reports directly to the President of the Management Board;
3) the President of the Management Board must not combine his or her function with the function of the member of the Management Board who oversees the management of material risks in the Bank's operations;
4) the President of the Management Board must not be entrusted with overseeing an area of the Bank's operations posing material risks in the Bank's operations;
5) the member of the Management Board who oversees the

management of significant risks in the Bank's operations must not be entrusted with overseeing the area of the Bank's operations posing the risks whose management he or she oversees;

6) oversight of the area of compliance management and the area of accounting and financial reporting is assigned to a designated member or members of the Management Board.

10. 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, para. 2 in conjunction with Article 31, para. 3 of the Banking Act of 29 August 1997. Amendments to the Articles of Association of the Bank require the authorization of the Polish Financial Supervision Authority, if they concern:

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) own funds and financial management principles;

6) share privileges or restrictions with respect to voting rights.

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

11.1 General Meeting procedure

The General Meeting of the Bank operates in accordance with the Bylaws of the General Meeting, the Articles of Association as well as applicable laws. The Bank's General Meeting ("General Meeting") follows stable Bylaws 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 Supervisory Board has the right to convene an ordinary General Meeting if the Management Board fails to convene such meeting within the timeframe set in the Articles of Association and to convene an extraordinary General Meeting if the Supervisory Board considers it necessary. An extraordinary General Meeting is convened by the Management Board on its own initiative and at the request of a shareholder or shareholders representing at least one-twentieth of the share capital. A request for convening an extraordinary General Meeting should be submitted to the Management Board in writing or in electronic form. If an extraordinary General Meeting is not convened within two weeks from submission of a request to the Management Board, the registration court may, by way of a decision, authorize the shareholder or shareholders who have made such request to convene the extraordinary General Meeting. The shareholder or shareholders authorized by the registration court should refer to the decision of the registration court mentioned in the previous sentence in the notice convening the extraordinary General Meeting. The chair 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 chair of such a General Meeting is appointed by the shareholders. The General Meeting is convened by way of an announcement placed on the Bank's website and in the manner stipulated for the distribution of current filings by public companies, provided that such an announcement is made at least twenty-six days before the scheduled date of the General Meeting. Shareholders who have the right to demand that a certain issue be included on the agenda of a General Meeting should, in order to exercise such right, submit a motion to the Bank's Management Board in writing or in an electronic form along with a justification and a draft resolution related to the proposed item on the agenda, no later than twenty-one days before the date of the General Meeting. The Management Board will place the issue on the agenda of the next General Meeting immediately, no later than eighteen days before the scheduled date of the General Meeting. A General Meeting may be cancelled only if it has become expressly irrelevant or there are extraordinary obstacles preventing it. A General Meeting is cancelled, or its date is changed, in the same manner as it is convened, except that the twenty six day period is not applied. Cancellation or change of date of a General Meeting must be made in a manner minimizing the adverse effects for the Bank and the shareholders. The General Meeting can resolve not to consider an issue placed on its agenda and to change the order of issues included on the agenda. However, in order to remove an issue from the agenda or resolve not to consider an issue included on the agenda at the 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 the case in question does not require passing of a resolution, along with comments of the Management Board) is placed on the Bank's website as of the day of convening such General Meeting together with other information on the 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 the convening of General Meetings imposed by the applicable laws.

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

Through the party in charge of opening the General Meeting, the Bank's Management Board always provides the Chair 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 Bylaws of the General Meeting. The Bylaws 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 a secret ballot.

The Chair 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 Chair 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 Chair 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.

11.2 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 dividend record date 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) capital reserve;
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.

11.3 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 Chair of the General Meeting, as well as propose one candidate for the Chair of the General Meeting to the minutes.

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

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

1) could be detrimental to the Company, its related party or subsidiary, in particular through the disclosure of technical, trade or organizational secrets of the enterprise;
2) could expose a member of the Management Board to criminal, civil or administrative liability.

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

The governing bodies of the Company do not limit information but, at the same time, they comply with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, the Act on Trading in Financial Instruments, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, 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.

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

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 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.

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 the Bank in Warsaw;
- representatives of the media are allowed to be present at 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 shareholders no later than 14 days before the date of the General Meeting, at the Bank's registered office and on the Bank's website;
- General Meeting of Shareholders acts according to its stable 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 who 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.

12. 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

12.1 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 notifying the audited unit of any decisions made with respect to the audit; • exercising other rights under the bylaws adopted by the Supervisory Board; • overseeing the identification and implementation of Bank strategy; • supervising the internal audit unit; • supervising the risk of non-compliance of the Bank with the laws, regulations and market standards; • overseeing personnel policies; • 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; • ensuring that the principles of operational risk management associated with the activities undertaken are in place at subordinated divisions and organizational units operating outside of the divisional structure.
David Mouillé Vice-President of the Management Board	Responsible for consumer banking, including for the quality standard of the banking services provided by the organizational units overseen, ensures the implementation at the units overseen 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 the principles of operational risk management associated with the activities undertaken are in place at the organizational units overseen.
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 at the Bank of the regulatory requirements from the area of risk management, including the recommendations of supervision authorities. Responsible for the adjustment of the organizational structure of the Bank to the size and risk profile of the Bank. She is a member of the Management Board to whom infringements and violations of the applicable laws and procedures and ethical standards in force at 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 at the Bank of the requirements arising from the provisions of the law, as well as regulatory resolutions and recommendations in the area of capital adequacy. Also responsible for the current cooperation with, and supervision over corporate and commercial banking, including overseeing services for clients from financial institutions sector, ensures the implementation in of operational risk management rules related to the activities undertaken at the organizational units overseen.
Katarzyna Majewska Member of the Management Board	Responsible for: operations and technology, real estate management and administration. Ensuring that the principles of operational risk management associated with the activities undertaken are in place at the organizational units overseen.
Czesław Piasek Member of the Management Board	Responsible for transactional banking, including: • cash management products; • trade finance products; • cash products; • liquidity management products. In addition, he is responsible for the supervision of EU programs, and for overseeing, within the framework of functional ties, services for the public sector. He ensures that the principles of operational risk management associated with the activities undertaken are in place at subordinated organizational units.

The Management Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Bylaws of the Management Board. The Bylaws of the Bank's Management Board set forth the scope and procedure of the Management Board's proceedings as well as the procedure for the adoption of resolutions.

In 2016, the following committees operated within the Bank's Management Board:

1) Assets and Liabilities Management Committee (ALCO);

2) Equity Investment Committee;

3) Risk and Capital Management Committee;

4) Consumer Banking 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 for the meetings.

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

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

5) Corporate Services Office Head or a designated person;

6) Head of Compliance;

7) Head of Legal.

The Head of Internal Audit and the Head of Compliance attend the meetings of the Management Board if the agenda covers the internal control system, the internal audit function, the compliance function or issues related to the Company's internal controls. 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 chair of the meeting may decide that the meeting is to take place 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 in an open ballot. The chair 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 a resolution is the date of its signing by the Member of the Management Board putting signature under the resolution already signed by at least half of the members of the Management Board. If at least one of the members of the Management Board raises objection as to deciding in a circular procedure, the draft resolution should be submitted to the next meeting of the Management Board. A resolution may be adopted in a circular procedure provided that all members of the Management Board are notified of its adoption. A resolution adopted in a circular procedure constitutes an appendix to the minutes from the first meeting of the Management Board following its adoption.

With the consent of the President of the Management Board, the members of the Management Board absent at the meeting may participate in the meeting and vote 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 separate 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.

12.2 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	Andrzej Olechowski is a member of the Board of Directors of Euronet, of the Supervisory Board of P4 Sp. z o.o. and of the Advisory Committee of Macquarie European Infrastructure Funds as well as a member of the Board of Trustees, European Council on Foreign Relations. 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 Chair of the Polish Group of the Trilateral Commission. He is the author of numerous publications on international trade and foreign policy. He holds a PhD and teaches at the Vistula Academy of Finance and Business. In the years 1991-1996 and 1998-2000, he already served as the Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003. Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 23 July 2012.
Shirish Apte Member of the Supervisory Board	Mr. Shirish Apte was the 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 the Citi Executive Committee and Operating Committee. Mr. Shirish Apte has worked at Citi for over 32 years. He was, among others, CEO of the Central and Eastern Europe, Middle East and Africa (CEEMEA) Region, and earlier as the Country Manager he was responsible for Citi's operations in Poland, and was Vice-President of Bank Handlowy w Warszawie S.A. In 1993, Mr. Shirish Apte moved from India to London where he assumed the position of Senior Risk Manager in the CEEMEA Region. Then he was appointed Head of Corporate Finance and Investment Bank in the CEEMEA Region, including India. Mr. Shirish Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and holds a BA degree in Commerce. Mr. Shirish Apte also has an MBA from London Business School.
Igor Chalupec Member of the Supervisory Board	Mr. Igor Chalupec is a manager and financier. He is currently the CEO of the ICENTIS Capital company, which specializes in capital market transactions, and the CEO of RUCH S.A., one of the largest press distributors in Poland. From 2004 to 2007, he served as President of the Management Board of PKN ORLEN S.A. – the largest company from the refinery and petrochemical sector in Central Europe. From 2003 to 2004, he held the position of Deputy Minister of Finance and Deputy Chair of the Polish Financial Supervision Authority; he was also a member of the European Financial Committee in Brussels. From 1995 to 2003, he was Vice President of the Management Board of Bank Pekao S.A. (which belongs to the UniCredit Group). He was the founder and CEO (from 1991 to 1995) of Centralny Dom Maklerski Pekao S.A., the largest brokerage firm in Poland; for many years (from 1995 to 2003) he served as member of the Warsaw Stock Exchange. Mr. Igor Chalupec has sat on the Supervisory Boards of Bank Handlowy S.A. (Citi Group) since 2009 and of Budimex S.A. (Ferrovial Agroman Group) since 2007. He is also member of the Polish Business Council, the Program Board of the Economic Forum (Polish Economic Forum in Krynica), the Program Board of the Executive Club, member of the Board of the Institute of Public Affairs Foundation, member of the Board of the Polish Institute of Directors, member of the Chapter of the Lesław A. Paga Award, Vice President of the Polish Bridge Union and member of the Board of the Women's Workshop Foundation. He is the Founder and Chair of the Board of the Foundation of the Evangelical Educational Association. He is the co-author of Rosja, ropa, polityka, czyli o największej inwestycji PKN ORLEN" ["Russia, Oil, Politics. The Largest Investment by PKN ORLEN"] – a book about the purchase of the Mažeikiųrefinery in Lithuania. Mr. Igor Chalupec has received numerous awards and honors including the Manager Award (in 2012), the Lesław A. Paga Award (in 2007), the WEKTOR award (in 2006) and the HERMER award (in 1996). Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 18 June 2009.
Jenny Grey Member of the Supervisory Board	In February 2016, Ms. Jenny Grey was appointed Head of Human Resources at Citi EMEA. Earlier, from October 2012, Ms. Grey served as EMEA Head of Public Relations and was responsible for protecting and enhancing Citi reputation in the EMEA Region. Her responsibilities included media relations, internal and external communications, brand and community development. Ms. Jenny Grey has 24 years of experience in the field of communications. She joined Citi in October 2012, after four years of working for the British government – most recently at the headquarters of the British Prime Minister as Executive Director for Government Communications. She was Head of Profession, overseeing a staff of 5,000 who were tasked with communication across the public sector. Previously, she had worked in the public sector where she held the position of Director for Communications and Social Marketing, e.g. in the British National Health Service and on the Audit Committee. She was also Director of Corporate and International Affairs at Cancer Research UK, the largest charitable foundation in the United Kingdom, where she established the first unit responsible for public policy and support. Ms. Jenny Grey began her professional career in advertising and then became a public relations advisor, specializing in the field of reputation management and crisis management. She advised many international clients, including corporations such as McDonald's, Toyota, BP or Allied Domecq. She graduated in Social Psychology from the London School of Economics and holds a honors degree in English Language and English Literature from Durham University. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2016.
Mirosław Gryszka Member of the Supervisory Board	Mr. Mirosław Gryszka began his career in the Zamech company in Elbląg, which was acquired by ABB in 1990. Since then, he has held a number of management functions; from 1997, he was President of the Management Board and Country Manager of ABB in Poland. On 1 September 2013, he was appointed to the newly created position of Cluster Manager within the ABB Group with responsibility for Russia, the Baltic countries, Central Asia and the Caucasus. During Mr. Mirosław Gryszka's term of office as President of the Management Board, the national ABB organization consisting of several companies went through a process of consolidation and recorded a steady increase in turnover, becoming a leading manufacturer of power engineering and automation solutions in the Polish market. Currently, ABB owns a state-of-the-art scientific and research center in Poland, an IT systems center and six manufacturing plants that manufacture, inter alia, medium and high voltage products, switchgears, transformers, electric motors and power electronics devices. The company employs more than 3,000 staff, of which around 400 work directly on innovative technologies. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 30 June 2000.

Member of the Supervisory Board	Professional experience
Andrzej Olechowski Chairman of the Supervisory Board	Andrzej Olechowski is a member of the Board of Directors of Euronet, of the Supervisory Board of P4 Sp. z o.o. and of the Advisory Committee of Macquarie European Infrastructure Funds as well as a member of the Board of Trustees, European Council on Foreign Relations. 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 Chair of the Polish Group of the Trilateral Commission. He is the author of numerous publications on international trade and foreign policy. He holds a PhD and teaches at the Vistula Academy of Finance and Business. In the years 1991-1996 and 1998-2000, he already served as the Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003. Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 23 July 2012.
Shirish Apte Member of the Supervisory Board	Mr. Shirish Apte was the 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 the Citi Executive Committee and Operating Committee. Mr. Shirish Apte has worked at Citi for over 32 years. He was, among others, CEO of the Central and Eastern Europe, Middle East and Africa (CEEMEA) Region, and earlier as the Country Manager he was responsible for Citi's operations in Poland, and was Vice-President of Bank Handlowy w Warszawie S.A. In 1993, Mr. Shirish Apte moved from India to London where he assumed the position of Senior Risk Manager in the CEEMEA Region. Then he was appointed Head of Corporate Finance and Investment Bank in the CEEMEA Region, including India. Mr. Shirish Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and holds a BA degree in Commerce. Mr. Shirish Apte also has an MBA from London Business School.
Marek Kapuściński Member of the Supervisory Board	Mr. Marek Kapuściński graduated from the Foreign Trade Faculty of the School of Planning and Statistics in Warsaw (currently Warsaw School of Economics) and completed SEHNAP/Stern School of Business postgraduate studies at New York University. He worked for Procter & Gamble for 25 years, until September 2016. He contributed to the company's success in the Polish and Central European markets and co-authored many standards for the Polish market after the transformation, e.g. standards for the cosmetics industry, business ethics and social responsibility standards and self-regulation rules in the field of advertising. From July 2011, he was Chief Executive Officer and Vice-President for the nine key P&G markets in Central Europe, and from January 2007 he performed those responsibilities for Poland and the Baltic countries. He was the first Pole and Central European at this management level of the global Procter & Gamble corporation, active member of regional company management and of its Global Business Leadership Council which included all 250 top company managers. He is an experienced CEO and leader, expert in the areas of strategy, innovation and management, an active author of standards for brand management that continuously adapts to new challenges as well as standards for shopper marketing, sales and communication in a digital, omni-channel environment. As the first Pole and Central European at P&G, he was subsequently promoted to the positions of Brand Manager, Marketing Manager and Marketing Director; for 5 years, he was responsible for the development of a number of brands in the Central and Eastern Europe, Middle East and Africa region. He was co-author of the strategy for brands such as Always, Vizir, Ariel, Lenor, Fairy, Pampers, Gillette, Head&Shoulders, Pantene, Blend-A-Med and Old Spice, contributing to their leading market positions. In recognition of his contribution to the building of brands and the authoring of standards and practices for the Polish advertising market, Media Marketing Polska awarded him the title of the "Top Marketer of the Last 20 Years". Lecturer, juror and discussion panel participant. Currently serves on Supervisory Boards of a number of companies and public benefit organizations and advises their Management Boards. Privately, he invests in startups and contributes to the development of young Polish art and culture. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 29 September 2016.
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 degree in Commerce. He also holds the title of a Chartered Accountant. He lives in London with his family. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 28 June 2010.
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 also graduated in Psychology from the University of Hamburg and was awarded a postgraduate degree from the Polish-French Institute of Insurance at the French Institute. She completed a training cycle, including in the area of management, sales, communication, marketing (including 3-year management studies) under the LIMRA "Marketing Strategies for Executive Advancement" certified program for the insurance industry (LIMRA Executive Development Group). She also completed many courses in management, sales, finance, marketing and banking. Since 2002, Ms. Anna Rulkiewicz has worked at 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 the LUX MED Group. Since the end of 2011 she has also served as 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. Her professional experience also includes, among others, managing (in the years 2001-2002) the Sales and Marketing Division at 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 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., she was responsible for the segment of clients from the small business and corporate segments. In the years 1995-1998, she worked at Commercial Union Towarzystwo Ubezpieczeń na Życie S.A. where in her last position she was responsible for the development of group and individual insurance sales under bancassurance arrangements. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 June 2013.

Member of the Supervisory Board	Professional experience
Andrzej Olechowski Chairman of the Supervisory Board	Andrzej Olechowski is a member of the Board of Directors of Euronet, of the Supervisory Board of P4 Sp. z o.o. and of the Advisory Committee of Macquarie European Infrastructure Funds as well as a member of the Board of Trustees, European Council on Foreign Relations. 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 Chair of the Polish Group of the Trilateral Commission. He is the author of numerous publications on international trade and foreign policy. He holds a PhD and teaches at the Vistula Academy of Finance and Business. In the years 1991-1996 and 1998-2000, he already served as the Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003. Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 23 July 2012.
Shirish Apte Member of the Supervisory Board	Mr. Shirish Apte was the 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 the Citi Executive Committee and Operating Committee. Mr. Shirish Apte has worked at Citi for over 32 years. He was, among others, CEO of the Central and Eastern Europe, Middle East and Africa (CEEMEA) Region, and earlier as the Country Manager he was responsible for Citi's operations in Poland, and was Vice-President of Bank Handlowy w Warszawie S.A. In 1993, Mr. Shirish Apte moved from India to London where he assumed the position of Senior Risk Manager in the CEEMEA Region. Then he was appointed Head of Corporate Finance and Investment Bank in the CEEMEA Region, including India. Mr. Shirish Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and holds a BA degree in Commerce. Mr. Shirish Apte also has an MBA from London Business School.
Anand Selvakesari Member of the Supervisory Board	Mr. Anand Selvakesari has been with Citi since 1991. Since July 2015, he has been Asia Pacific Head, Consumer Banking. In his current position, he is responsible for the consumer banking and commercial banking area across Asia. Before holding his current position, from December 2013 Mr. Anand Selvakesari was Consumer Business Head in the region that included the countries belonging to the Association of Southeast Asian Nations (ASEAN) and India. In that role, he was responsible for consumer banking in the ASEAN Cluster, which includes Singapore, Malaysia, Indonesia, Philippines, Thailand, Vietnam and India. Earlier, from 2011 to 2013, Mr. Selvakesari was Country Business Manager at Consumer Bank in India, managing consumer banking, credit cards, unsecured loans, banking for non-Indian citizens and commercial banking in India. The areas managed by Mr. Anand Selvakesari have become market leaders, enjoying record brand preference among clients and cooperating in the implementation of pioneering solutions with other market leaders. Before taking up his post in India, Mr. Anand Selvakesari was Director of Retail Banking at Citi China from 2008 to 2011. The business managed by Mr. Selvakesari grew several times its original size, becoming the industry leader in innovation and introducing many new products to the market. Mr. Anand Selvakesari was also Director of Retail Banking in Taiwan from 2004 to 2006; for eight years, he fulfilled regional roles in Singapore, working in various positions in the investment banking, wealth management and retail banking areas from 1996 to 2004. Mr. Anand Selvakesari holds an MBA in Finance and Marketing and has a Mechanical Engineering degree - both obtained in India. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2016.
Stanisław Sołtysiński Member of the Supervisory Board	Stanisław Sołtysiński is a Professor of Law. Prof. Sołtysiński engages in academic activity as Professor of Law at the Adam Mickiewicz University in Poznań (where he also served as 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 academic associations and organizations. Among others, he is a correspondent member of the Polish Academy of Learning and a member of the Board of Directors of UNIDROIT. He is a co-author of the Commercial Companies Code. Professor Sołtysiński also practises law as a partner in the Spółka Komandytowa "Sołtysiński, Kawecki i Szlęzak" Doradcy Prawni law firm [limited partnership]. Professor Sołtysiński was appointed to the Supervisory Board of Bank Handlowy w Warszawie S.A. on 26 March 1997 and was the Chair of the Supervisory Board from 30 June 2000 to 20 June 2012. 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 company strategic management and key matters related to clients. His professional experience with Credit Suisse First Boston began in August 2001 and before that he worked for Shearman & Sterling, a New York-based law firm, where he had been Senior Partner since 1991. During his career in Shearman & Sterling, Mr. Volk acted as legal counsel to a number of corporations including Citicorp. The firm provided advisory services for Citicorp within a wide range of fields including restructuring of the Citigroup debt portfolio in Latin America. Among some important transactions carried out with substantial participation of Mr. Volk were the following: mergers of Glaxo and SmithKline, 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. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.

In 2016, the Supervisory Board also included Mr. Anil Wadhwani who resigned from the function as of 20 June 2016, Mr. Dariusz Mioduski who resigned from the function as of 30 June 2016 and Mr. Zdenek Turek who resigned from the function as of 31 December 2016.

The Supervisory Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Bylaws 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 the opening or closing of foreign branches;
5) adoption of the Bylaws of the Supervisory Board as well as the approval of:
6) Bylaws of the Management Board of the Company;
7) rules for the management of special funds created from the net profit.
8) granting prior consent to undertaking measures with respect to management of the Company's fixed assets whose value exceeds one tenth of the Company's share capital;
9) appointing the entity authorized to audit financial statements to audit or review the financial statements;
10) granting consent to the hiring and dismissal of the Head of Internal Audit and the Head of Compliance upon the motion of the Management Board;
11) 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;
12) supervision over the 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;
13) approval of the Bank's operational strategy and the principles of prudent and stable management of the Bank;
14) approval of the fundamental organizational structure of the Bank, adjusted to the size and profile of the risk incurred and determined by the Bank's Management Board;
15) acceptance of the general level of the Bank's risk;
16) approval of the principles of the Bank's compliance risk policy;
17) approval of the Bank's internal procedures concerning internal capital assessment, capital management and capital planning processes;
18) approval of the Bank's information policy;
19) approval of the internal control procedure;
20) 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;
21) approval of the policy governing the variable components of remuneration for persons in managerial positions in the Bank;
22) approval of the list of managerial positions in the Bank which have a significant impact on the risk profile in the Bank.

Pursuant to the Banking Act, 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 Chair of the Supervisory Board and, in his/her absence, by one of Vice-Chairs 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 Chair of the Supervisory Board may determine fixed dates for 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 of members of the Management Board 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 motions 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 by means of direct communication at a distance.

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

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

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

Each member of the Supervisory Board is obliged to immediately inform the remaining members of a conflict of interests and refrain from taking part in the discussion as well as voting on a resolution with respect to which the 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 chair 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 Chair 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 Internal Audit may participate in meetings of the Supervisory Board at which issues related to the Company's internal controls are considered. In specially justified circumstances, the Chair of the Supervisory Board may decide to convene a meeting without the participation of parties other than members of the Supervisory Board, irrespective of any preceding regulations providing otherwise.

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

1) Audit Committee; and

2) Remuneration Committee;

3) Risk and Capital Committee.

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

In line with the aforementioned procedure, in 2003 the **Supervisory Board appointed the Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's governing bodies as well as the streamlining of their functioning. The Committee is composed of: Shirish Apte as the Chair and Stanisław Sołtysiński as the Deputy Chair, and Igor Chalupec, Jenny Grey, Mirosław Gryszka, Marek Kapuściński, Dariusz Mioduski (until 30 June 2016), Frank Mannion, Andrzej Olechowski, Anna Rulkiewicz, Anand Selvakesari (from 29 September 2016), Zdenek Turek and Stephen R. Volk and Anil Wadhwani (until 20 June 2016) as Committee members.

Audit Committee

The Audit Committee is composed of:

1) Mirosław Gryszka – Chair of the Committee;

2) Frank Mannion – Deputy Chair of the Committee;

3) Shirish Apte – Member of the Committee;

4) Igor Chalupec – Member of the Committee;

5) Marek Kapuściński – Member of the Committee;

6) 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 financial reporting, monitoring the effectiveness of internal control and internal audit systems, monitoring risk management, monitoring audit performance and monitoring the independence of the auditor.

Members of the Committee perform their roles pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to 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 Chair. 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 Chair on his/her own initiative or upon the motion of a Committee member. Should the Committee Chair be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Vice-Chair. Meetings are also convened upon the motion of a Committee member or the Chair 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 Chair upon consultation with the Vice-Chair of the Committee.

At least once every year, the Audit Committee meets:

1) with the Head of Internal Audit, without the participation of management;

2) with the statutory auditor of the Company, without the participation of management;

3) exclusively with the participation of members of the Audit Committee.

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 motions. 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 the materials received, the Secretary of the Audit Committee prepares a draft agenda, including a list of invitees, and submits it to the Committee Chair and Vice-Chair for approval. The draft agenda approved by the Committee Chair and Vice--Chair is distributed together 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 Chair or Vice-Chair may participate in the meeting or its relevant part.

Meetings of the Committee are chaired by the Chair of the Audit Committee. In the Chair's absence, meetings are chaired by the Deputy Chair. Upon consultation with the Vice-Chair of the Committee, the Chair 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 Chair of the Committee, the Chair of the Audit Committee may decide on considering a matter in a circular procedure.

Remuneration Committee

The Remuneration Committee is composed of:

1) Andrzej Olechowski – Chair of the Committee;

2) Jenny Grey – Deputy Chair of the Committee;

3) Stanisław Sołtysiński – Member of the Committee;

4) Zdenek Turek – Member of the Committee.

In 2016, Members of the Remuneration Committee included Mr. Zdenek Turek (until 31 December 2016).

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 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 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 Chair and Vice-Chair, are elected by the Supervisory Board in an open ballot.

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

Based on the materials received, the Secretary of the Remuneration Committee prepares a draft agenda, including a list of invitees, and submits it to the Committee Chair 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 seven days prior to the specified meeting date. Parties invited by the Committee Chair, and in particular parties presenting individual issues, participate in the Committee meeting or its relevant part.

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

The Chair 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 Chair and the Secretary. 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 – Chair of the Committee;

2) Igor Chalupec – Deputy Chair of the Committee;

3) Frank Mannion – Member of the Committee;

4) Andrzej Olechowski – Member of the Committee;

5) Anand Selvakesari – Member of the Committee;

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

In 2016, Members of the Risk and Capital Committee included Mr. Anil Wadhwani (until 20 June 2016), Mr. Dariusz Mioduski (until 30 June 2016) and Mr. Zdenek Turek – Chair of the Committee (until 31 December 2016).

Members of the Committee perform their roles specified in its Bylaws 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 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 Bylaws 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, the assessment of the adequacy and effectiveness of the risk management system as well as for 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 Chair. 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 Chair on his/her own initiative or upon the motion of a Committee member. Should the Committee Chair be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Vice-Chair. Meetings are also convened upon the motion of a Committee member or the Chair of the Supervisory Board.

Meetings of the Committee are held at least on a semi-annual basis on dates determined by the Committee Chair upon consultation with the Vice-Chair 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 the materials related to the matters discussed at the meeting. The agenda of the Committee includes standing items as well as issues considered upon motions. 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 Chair or Vice-Chair may participate in the meeting or its relevant part.

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

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

Minutes are taken from the Committee's meetings.

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

Dom Maklerski Banku Handlowego S.A (DMBH) and Handlowy-Leasing Spółka z o.o. (HL) are not public companies, and therefore 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 Group of Companies, 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 primarily concerns business secret protection rules, relationships with clients and conduct of brokerage house staff, including relationships 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 corporate governance rules resulting from the Act and its secondary regulations; among other things, pursuant to Article 103 of the aforementioned Act the Management Board should consist of at least two members with university degrees, at least three years of working experience in financial institutions and favorable references in connection with the functions performed. 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). The aforementioned Act also regulates the issue of purchasing shares in the brokerage house. It stipulates that the head office of the brokerage house must be in Poland. Since 1 January 2015, DMBH has been subject to the Corporate Governance Principles for Supervised Institutions ("CGPs") adopted by PFSA resolution of 22 July 2014. CGPs are a set of rules governing the 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. CGPs 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's willingness to comply with CGPs, and the Supervisory Board approved compliance with the those CGPs that are within the competences of the Supervisory Board.

Three CGPs are not applied by DMBH:

1) para. 11, subpara. 2 (related party transactions) – this principle will not be applied in respect of agreements relating to current operating activities;
2) para. 22, subparas. 1 and 2 (independence of 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 has not developed any Best Practices applicable to leasing companies.

HL operates in accordance with the Commercial Companies Code. HL has a Supervisory Board despite the fact that there is no relevant statutory requirement, in order to ensure continuous supervision of the Company's 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 policies concerning persons holding key functions, including persons who have a significant impact on the risk profile at Bank Handlowy w Warszawie S.A. (the Bank) and at Dom Maklerski Banku Handlowego S.A. (DMBH) (a brokerage house which is the Bank's subsidiary) were approved by Resolution of 3 December 2015 of the Bank's Supervisory Board and by Resolution of 28 December 2015 of the DMBH Supervisory Board respectively (hereinafter referred to as the Remuneration Policy). The Remuneration Policy sets remuneration rules for members of the Management Board and other persons holding key functions, including persons who have a significant impact on the risk profile of the Bank and DMBH respectively. The policy implements provisions on remuneration rules at banks and brokerage houses included in applicable laws and in the Corporate Governance Rules for Supervised Institutions adopted by the Polish Financial Supervision Authority.

The rules concerning variable remuneration at the Bank and at DMBH are described in detail in the "Policy Concerning Variable Components of Remuneration for Persons Holding Managerial Positions at Bank Handlowy w Warszawie S.A." established by the Management Board and approved by the Bank's Supervisory Board on 26 September 2012 and in the "Policy Concerning Variable Components of Remuneration for Persons Holding Managerial Positions at Dom Maklerski Banku Handlowego S.A." established by the DMBH Management Board and approved by the DMBH Supervisory Board on 29 March 2012 as amended and approved by way of Resolutions of the Supervisory Board of the Bank and DMBH (hereinafter referred to as the Variable Remuneration Policy).

Variable remuneration is granted respectively by the Supervisory Board for the Members of the Bank's Management Board and by the Management Board for other persons covered by the "Policy Concerning Variable Components of Remuneration for Persons Holding Managerial Positions at Bank Handlowy w Warszawie S.A.". At the Bank, the Supervisory Board Remuneration Committee has also been established, which recommends and assesses the amounts of, and the terms for granting, variable remuneration for the persons covered by the Policy. The Remuneration Committee gives opinions on, and monitors the variable components of remuneration for persons covered by the variable remuneration policy who work in positions related to risk management, to the Bank's compliance with applicable laws and internal regulations and to internal audit.

Additionally, following each Policy amendment, the Supervisory Board Remuneration Committee issues an opinion on the amendments, including the amount and components of remuneration while being guided by prudential and stable risk, capital and liquidity management and special commitment to the Bank's long-term welfare and interests of its shareholders, investors and stakeholders.

The philosophy underlying the remuneration for the persons covered by the Variable Remuneration Policy adopted by the Group is as follows: the remuneration of individual employees differs based on financial or non-financial criteria such as their approach to taking risks and ensuring compliance with applicable laws, in order to reflect their current or future work performance and to supplement effective risk control mechanisms by reducing incentives to take reckless risks for the Group and its operation and by rewarding well-judged balance between risk and the rate of return. According to this philosophy, the payment of variable remuneration to the persons covered by the Variable Remuneration Policy is dependent on both short-term and long-term assessment of their individual performance and the financial results of the Bank (or respectively of DMBH) or of the relevant business unit; the persons responsible for control functions are not assessed in terms of financial results. The assessment of the Bank's or DMBH's results is based on data for three financial years, which takes into account the business cycle and the risk inherent in the Group's business. In the case of persons employed for less than three years, the assessment of the effects of their work at the Bank or DMBH takes into account the data from the time when their employment started. Variable remuneration for the work performed in 2016, granted on 16 January 2017, was divided into the current and deferred portions. The deferred portion consists of the short-term portion, rights to which may vest after a 6-month deferral period, and the long-term portion, which is divided into three tranches vesting in 2018, 2019 and 2020.

The vesting of individual tranches requires approval respectively by the Supervisory Board with respect to the Management Board and by the Management Board with respect to other employees in each case.

At least 50% of variable remuneration should be awarded in the form of non-cash instruments whose value is closely linked to the Bank's or DMBH's financial results. This condition is fulfilled by the phantom shares used by the Group, whose value will fluctuate depending on the market value of the Bank's shares. The remainder of the variable remuneration is a cash award; deferred tranches of the award will include interest for the period from the granting until the disbursement of the remuneration portion in question.

During the deferral period persons who receive part of their remuneration as phantom shares are entitled to receive dividend equivalents where dividends are approved and paid to holders of ordinary shares in the Bank, in accordance with Variable Remuneration Policy provisions.

Irrespective of changes in the value of deferred variable remuneration associated with fluctuations in the price of the Bank's shares or accrued interest, the amount of the deferred portion of the award disbursed may be reduced partly or completely if the Supervisory Board or respectively the Management Board determines that:

- the Eligible Persons have been granted Variable Remuneration on the basis of the Bank's substantially incorrect financial statements; or
- the Eligible Persons have knowingly engaged in providing substantially incorrect information regarding the Bank's financial statements; or
- the Eligible Persons have substantially exceeded any risk limits established or adjusted by persons holding senior managerial positions or by persons responsible for risk management; or
- the Eligible Persons have grossly breached their professional obligations; or
- there has been a substantial deterioration in the financial results of the Bank or a substantial error in risk management.

The vesting of each tranche of the deferred award will depend on the Bank's or respectively DMBH's results in the calendar year immediately preceding the date of vesting of each individual tranche ("Performance Year").

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 2016:

PLN'000	Salaries, awards and short-term benefits	
	Base salaries and awards	Other benefits
Sławomir S. Sikora	2,025	328
Maciej Kropidłowski	1,877	196
David Mouillé	1,562	844
Barbara Sobala	934	93
Witold Zieliński	1,131	124
Katarzyna Majewska(1)	766	449
Czesław Piasek	1,193	121
Former members of the Management Board:		
Brendan Carney(2)	304	-
Iwona Dudzińska (3)	122	39
Misbah Ur-Rahman-Shah (4)	-	22
Michał H. Mrożek(5)	-	13
	9,914	**2,229**

(1) In employment since 11 January 2016

(2) In employment until 22 June 2015

(3) In employment until 31 July2015

(4) In employment until 18 March 2014

(5) In employment until 28 February 2011

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 until 22 June 2015

(3) In employment until 31 July 2015

(4) In employment until 18 March 2014

"Base salaries and awards" include gross base salary well as awards paid in 2016 and 2015.

"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 2016" 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 2016	granted for years 2011-2015
Sławomir S. Sikora	638	2,386
Maciej Kropidłowski	487	464
David Mouillé	218	-
Barbara Sobala	145	153
Witold Zieliński	236	330
Katarzyna Majewska(1)	-	-
Czesław Piasek	196	177
Former members of the Management Board:		
Brendan Carney (2)	303	248
Iwona Dudzińska (3)	125	225
Misbah Ur-Rahman-Shah (4)	-	1,795
Robert Daniel Massey JR (5)	-	207
Sonia Wędrychowicz-Horbatowska (6)	-	138
Michał H. Mrożek(7)	-	77*
	2,348	**6,200**

(1) In employment since 11 January 2016

(2) In employment until 22 June 2015

(3) In employment until 31 July 2015

(4) In employment until 18 March 2014

(5) In employment until 19 June 2013

(6) In employment until 13 May 2012

(7) In employment until 28 February 2011

** refers to 2015*

"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 until 22 June 2015

(2) In employment until 31 July 2015

(3) In employment until 18 March 2014

(4) In employment until 19 June 2013

(5) In employment until 13 May 2012

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Supervisory Board in 2016 and 2015:

PLN'000	2016	2015
Andrzej Olechowski	402	402
Igor Chalupec	276	276
Mirosław Gryszka	246	246
Marek Kapuściński(1)	41	-
Anna Rulkiewicz	216	216
Stanisław Sołtysiński	216	216
Shirish Apte	246	254
Dariusz Mioduski (2)	126	216
	1,769	**1,826**

(1) In employment since 22 September 2016

(2) (2) In employment until 30 June 2016

The remuneration paid and due in 2016 to persons managing subsidiaries amounted to t PLN 4640 thousand (in 2015: PLN 4,899 thousand).

Persons supervising subsidiaries did not collect any remuneration for their services in 2016 and 2015.

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 2016 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	-	-	23,204	970
Maciej Kropidłowski	-	-	803	34
David Mouillé	-	-	-	-
Barbara Sobala	-	-	206	9
Witold Zieliński	-	-	-	-
Katarzyna Majewska			29	1
Czesław Piasek	-	-	2,250	94
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Shirish Apte	-	-	143,822	6,011
Jenny Grey	-	-	654	-
Frank Mannion	-	-	36,024	1,506
Anand Selvakesari			16,490	-
Zdenek Turek	-	-	37,552	1,569
Stephen R. Volk	-	-	137,445	5,744

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

As at 31 December 2016 and 31 December 2015, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

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

In terms of employment relationship, there is only one employment agreement, among 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 2016. 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 11 March 2016 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 2016. 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 - 2015 was made by PricewaterhouseCoopers Sp. z o.o.

The auditor's net fees under the agreements (paid or payable) for the years 2016 and 2015 are presented in the table below:

PLN'000	For the year	
	2016	2015
Bank (the parent company) audit fees (1)	369	369
Bank (the parent company) review fees (2)	153	153
Subsidiary companies audit fees (3)	178	230
Other assurance fees (4)	158	158
	858	910

(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 2016 signed on 25 May 2016).

(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 2016 signed on 25 May 2016).

(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 2016 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 Bank Handlowy w Warszawie S.A and the Capital Group of Bank Handlowy w Warszawie S.A. for 2016 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 2016.

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, as amended) is included in the Annual Stand-Alone Financial Statements of the Bank.

Signatures of Management Board Members

Date	Name	Position/function	Signature
21.03.2017	Sławomir S. Sikora	President of the Management Board	
21.03.2017	Maciej Kropidłowski	Vice-President of the Management Board	
21.03.2017	David Mouillé	Vice-President of the Management Board	
21.03.2017	Barbara Sobala	Vice-President of the Management Board	
21.03.2017	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
21.03.2017	Katarzyna Majewska	Member of the Management Board	
21.03.2017	Czesław Piasek	Member of the Management Board	

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