



**REPORT ON ACTIVITIES  
OF THE CAPITAL GROUP OF  
BANK HANDLOWY W WARSZAWIE S.A.  
IN 2014**

**MARCH 2015**

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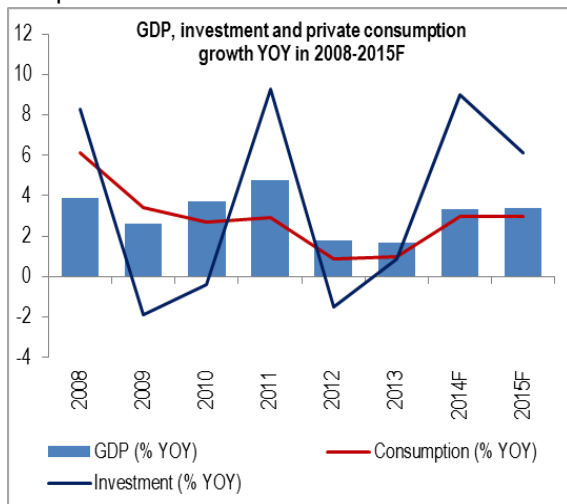
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## I. Poland's economy in 2014

### 1. Main macroeconomic trends

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

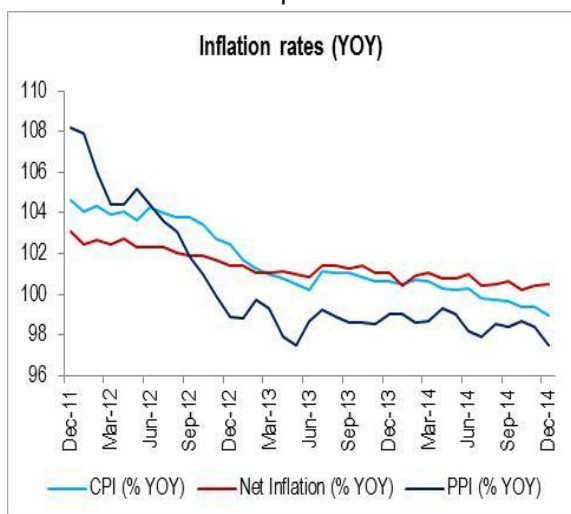


Source: Chief Statistical Office, own calculations

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

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

In 2014 the consumer price index did not change on an annual basis after a rise by 0.9% YoY in 2013.



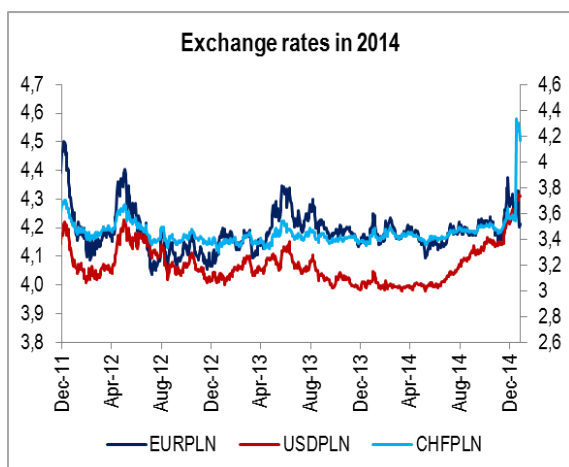
Source: Chief Statistical Office, own calculations

During the year, inflation gradually declined from 0.5% YoY in January to a record low of -1% in December, which was largely due to a decrease in petrol and food prices. After elimination of food and energy prices, in 2014 inflation reached an average of 0.6% YoY compared to 1.2% YoY in 2013, and after reaching the level of 1.1% YoY in March, it fell to 0.5% at the end of the year.

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

## 2. Money and forex markets

In 2014 the Polish zloty weakened against major currencies. The EUR/PLN rate remained relatively stable for most of the year, and grew in periods of rising geopolitical risks in connection with the Russian-Ukrainian conflict as well as at the end of the year with the weakening of the rouble, which contributed to the increased volatility in the currency markets in the region and worsening of economic prospects of the



Source: National Bank of Poland, own calculations

major trading partners. The zloty weakened against the euro at the end of December from 4.15 to 4.29 at the end of 2013. The weakening of the zloty against the dollar was much higher due to the global trend of strengthening of the dollar against the euro. The EUR/USD rate decreased from 1.37 at the end of 2013 to 1.21 at the end of 2014 due to much more optimistic forecasts of economic growth in the United States than in the eurozone, as well as due to the gradual reduction in asset purchases by the Fed and the rising expectations regarding commencement of the quantitative easing plan to be launched by the European Central Bank. Therefore, the USD/PLN rate grew during the year by approx. 17% from 3.02 to 3.54.

Treasury bond prices grew throughout almost the entire year, which was due to the falling inflation, rising expectations of further easing of monetary policy and

strengthening of core markets. The yield of 2Y Treasury bonds decreased from 3.03% to 1.77% at the end of the year at the end of 2013 while the yield of 10Y bonds fell from 4.35% to 2.54% respectively. The reduction in interest rates led to a decline in the WIBOR3M rate from 2.71% to 2.06% at the end of 2013. At the same time the CDS rate that reflects current market credit rating of Poland decreased during the year from 79 bp to 71 bp.

## 3. Capital market

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

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

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

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

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

**Stock market indices, as at 31 December 2014**

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

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

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

	2014	Change (%)	2013	Change (%)	2012
Shares (PLN million)*	465 730	(9.1%)	512 293	26.3%	405 760
Bonds (PLN million)	1 983	(40.0%)	3 305	58.5%	2 085
Futures ('000 contracts)	18 004	(23.8%)	23 612	11.5%	21 185
Options ('000 contracts)	958	(40.8%)	1 617	13.0%	1 431

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

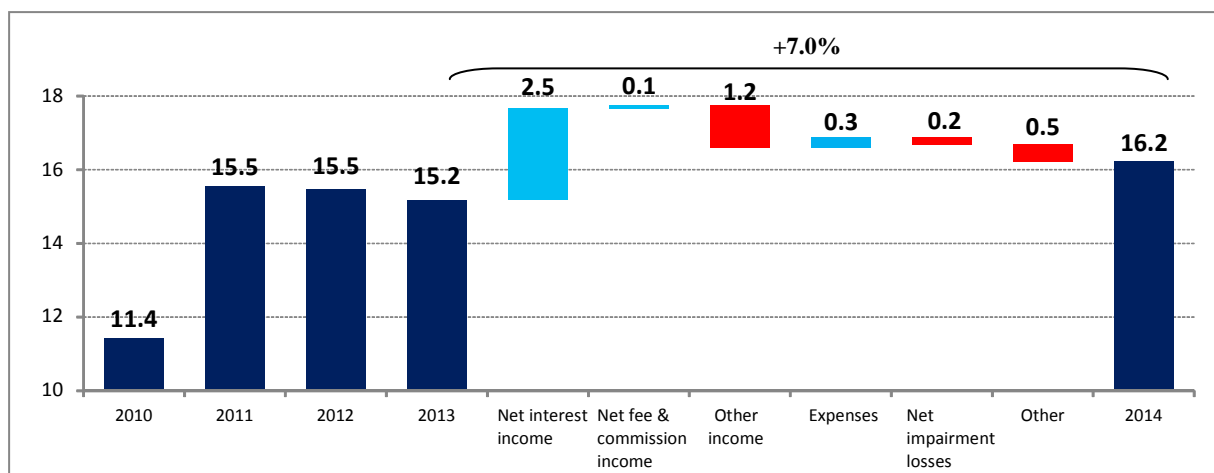
Year 2014 was characterized by a decrease in investment activity in all segments of the capital market. The value of equities trading decreased by 9.1% YoY reaching over PLN 465 billion.

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

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

#### 4. Banking sector

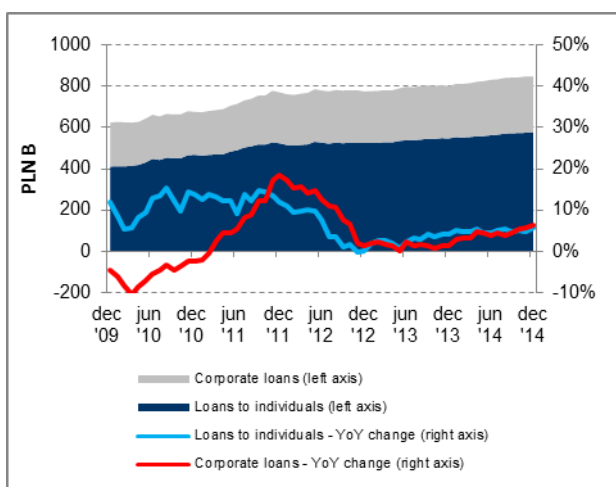
##### Net profit of the banking sector (PLN billion)



Source: KNF, own calculations

According to data from the PFSA, the net profit of the banking sector in 2014 increased by 7.0% compared to the previous year (PLN +1.1 billion) to the level of PLN 16.2 billion, which is a record high result. Compared to the previous record set in 2011, this represents an increase by 4.4%. The main driver of high profits was the improvement in net interest income by 7.1% YoY (PLN +2.5 billion). Net fee and commission income remained at a similar level, increasing by 0.7% YoY (PLN +0.1 billion), while the net income on other banking activity fell by 12.6% YoY (PLN -1.2 billion). As a result, the total revenue of the banking sector increased by PLN 1.4 billion, reaching nearly PLN 58.7 billion. The net result of the banking sector was positively affected by the decrease in costs by 0.9% YoY (PLN 0.3 billion). Consequently, the effectiveness of the sector as measured by the cost/income ratio improved. The ratio dropped from 53% in 2013 to 51% in 2014. Net impairment losses increased by 2.5% YoY (PLN -0.2 billion), despite the improvement in the quality of the loan portfolio as determined by the NPL ratio (by -0.4 pp YoY to 7.0%). The most significant improvement was observed in the area of consumer loans, where the NPL ratio decreased during the year by -1.8 p.p. to 12.8% at the end of December 2014. No changes were recorded in the portfolio of real property loans, which was related to the deterioration in the quality of foreign currency loans and improvement in the quality of loans denominated in PLN. As a result, the NPL ratio for loans extended to households improved for the second consecutive year (6.5% compared to 7.1% at the end of 2013 and 7.4% at the end of 2012). An improvement in portfolio quality ratio was noted for corporate loans as well. The NPL fell by -0.4 p.p. YoY to 11.2%. Improvement in the ratio was recorded for loans granted to large enterprises (-0.6 p.p. YoY to 9.0%) as well as loans extended to small and medium-sized enterprises (-0.3 p.p. YoY to 12.7%).

##### Loans granted to corporate and individual clients



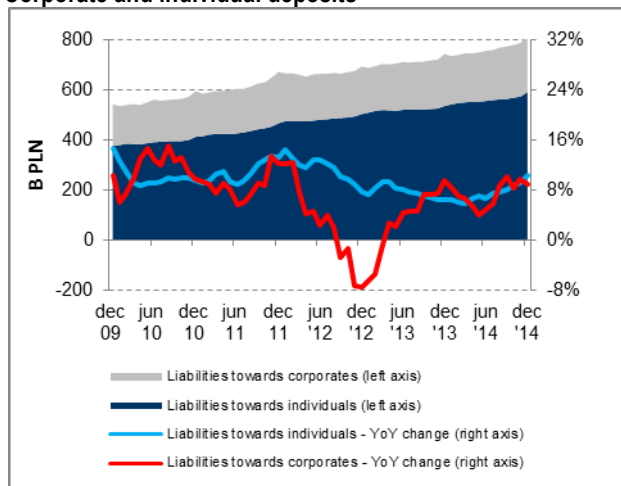
Source: NBP, own calculations.

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

period of less than one year and long-term loans for a period longer than five years increased by 5.3% YoY and 8.1% YoY respectively.

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

#### Corporate and individual deposits



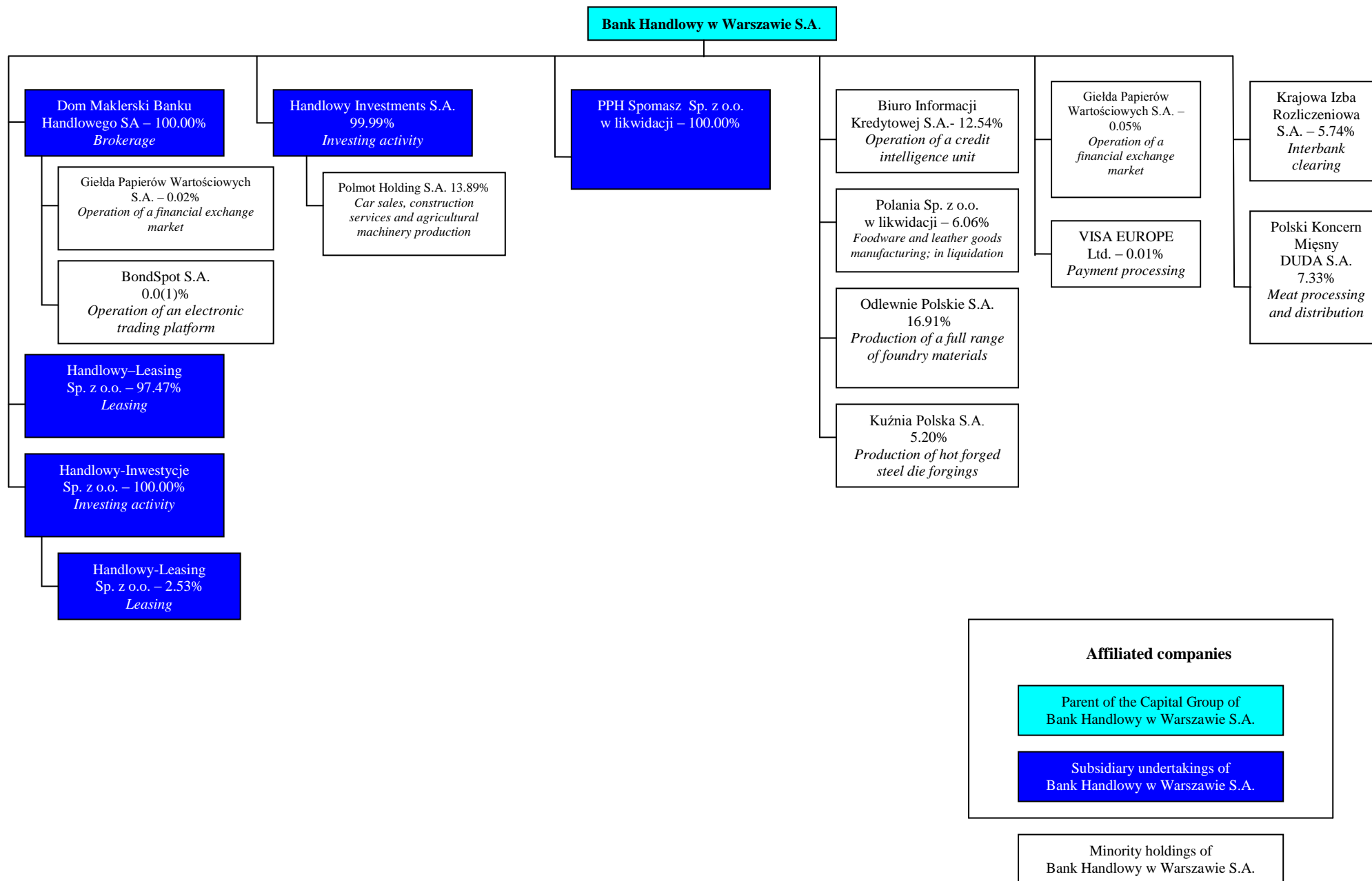
Source: NBP, own calculations.

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

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

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





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

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

#### GROUP ENTITIES FULLY CONSOLIDATED

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

\* Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2014

\*\* Including indirect participations

\*\*\* Pre-audit data

#### GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Handlowy-Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	10,889

\*\*\* Pre-audit data

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

#### 1. Major Developments in 2014

In 2014 the Bank had to face the challenging market environment (historically low interest rates) and regulatory environment (reduction in the interchange fees).

In the past year, the Group focused its efforts on strategic areas, as evidenced by the following achievements and events:

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

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

## 2. Summary financial data of the Group

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

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

### 3. Financial results of the Group in 2014

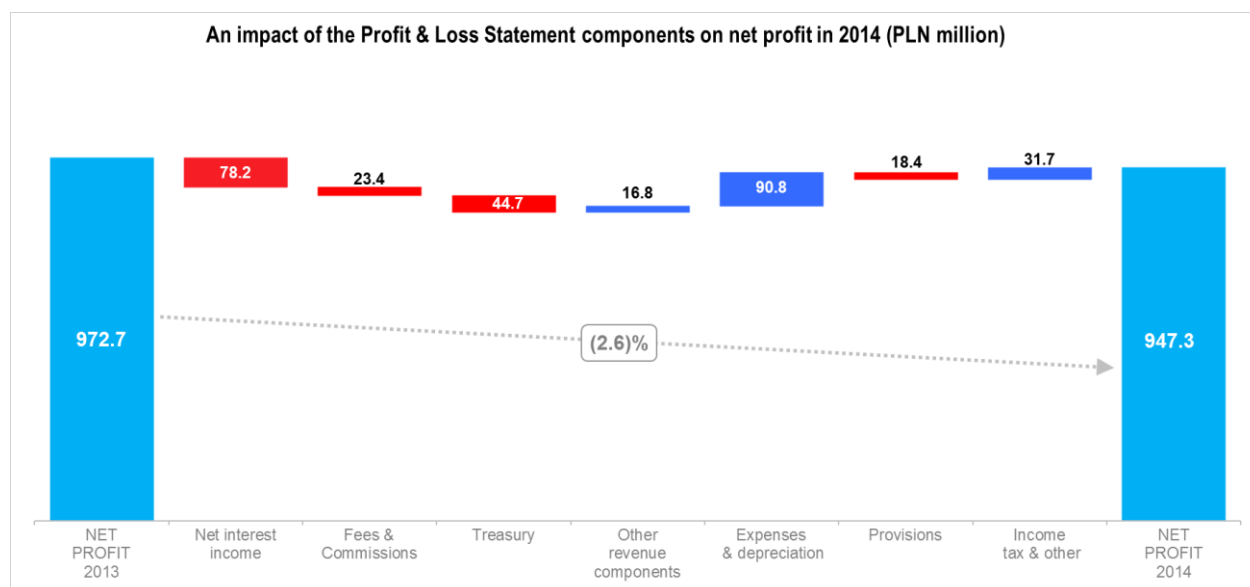
#### 3.1 Income statement

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

#### Selected income statement items

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

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



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

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

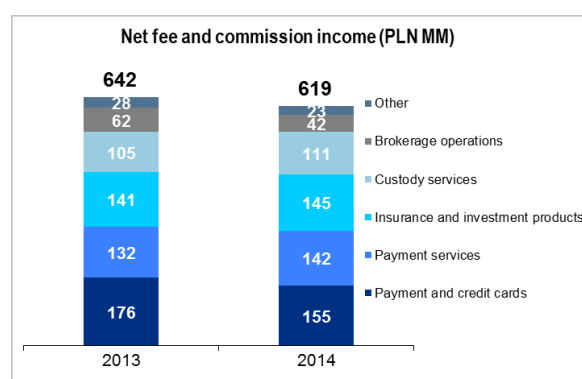
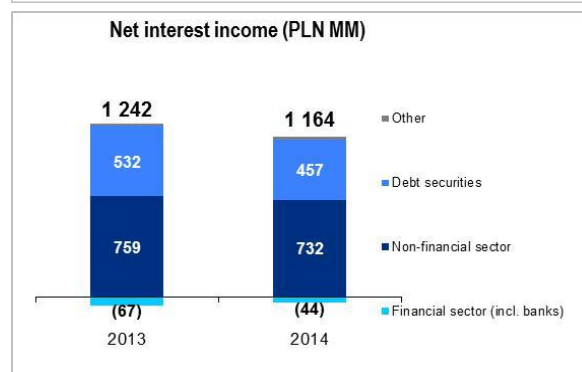
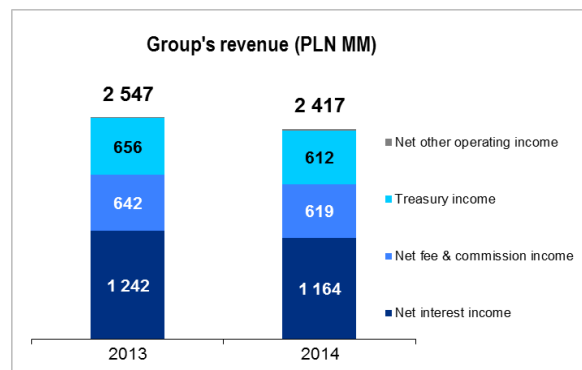
- Overheads and general administrative expenses and depreciation at PLN -1,273.9 million compared to PLN -1,364.6 million in the previous year – a drop in costs by PLN 90.8 million (i.e. 6.7%). In 2013 the Bank created a restructurisation provision posted to costs at PLN 62.4 million. With the provision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

### 3.1.1 Revenue

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

In 2014 operating revenues were affected by the following factors:

- net interest income at PLN 1,163.9 million compared to PLN 1,242.2 million in 2013 – a drop by PLN 78.2 million, i.e. 6.3%, at times of historically low interest rates. As a result, a drop in revenues from interest related to receivables from customers was recorded at PLN 95.9 million (i.e. 9.2%), which was partly compensated with a lower level of interest costs (drop by PLN 79.1 million, i.e. 19.6%). A major drop in net interest income as recorded for the portfolio of debt securities – by a total of PLN 75.4 million, i.e. 14.2% for marketable and available-for-sale debt securities;
- net fee and commission income at PLN 618.9 million compared to PLN 642.3 million in 2013 – a drop by PLN 23.4 million, i.e. 3.6% was mainly the effect of lower revenues from payment and credit cards in connection with implementation of the lowered interchange fee from 1 July 2014 (to 0.5%), partially offset with an increase in sales of instalment products for credit cards and an increase in the volume of transactions made with payment cards. In addition, for another year an increase in net commission income from the sales of investment and insurance products was recorded. As regards the area related to financial markets, there was a drop in commission on brokerage activities (the result of a drop in WSE trading and a lower number of transactions in the capital market), while the custodial services achieved higher revenues;
- net gains on trading financial instruments and revaluation at PLN 382.2 million compared to PLN 349.0 million in 2013, i.e. an increase by PLN 33.2 million mainly as a result of higher net gains related to activities in the interbank market;
- net gains on investment debt securities at PLN 229.9 million – lower by PLN 75.4 million compared to the previous year;
- net other operating income of PLN 10.6 million compared to PLN -0.2 million in 2013, i.e. improvement by PLN 10.8 million.

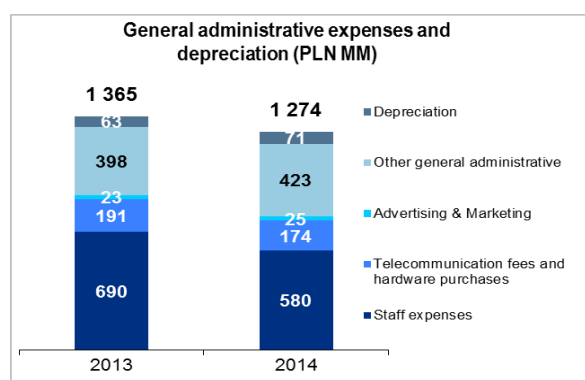


### 3.1.2 Expenses

#### General expenses & depreciation

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

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



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

#### Net impairment and provisions

PLN '000	2014	2013	Change	
			PLN '000	%
Net impairment losses incurred but not reported (IBNR)	17,932	28,820	(10 888)	(37.8%)
Net impairment losses on loans and off-balance sheet liabilities	(2,336)	6,833	(9 169)	(134.2%)
accounted for individually	(18,761)	(19,407)	646	(3.3%)
accounted for collectively, on a portfolio basis	16,425	26,240	(9 815)	(37.4%)
Net impairment losses on equity investments	-	-	-	-
Other	2,208	551	1 657	300.7%
<b>Net impairment losses on financial assets and provisions for financial and guarantee commitments</b>	<b>17,804</b>	<b>36,204</b>	<b>(18 400)</b>	<b>(50.8%)</b>

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

### 3.1.4 Ratio analysis

#### The Group's efficiency ratios

	2014	2013
Return on equity (ROE)*	14,6%	15,3%
Return on assets (ROA)**	2,0%	2,1%
Net interest margin (NIM)***	2,4%	2,7%
Margin on interest-bearing assets	2,8%	3,2%
Earnings per share in PLN	7,25	7,44
Cost/income****	53%	54%
Non-financial sector loans to non-financial sector deposits	60%	64%
Non-financial sector loans to total assets	32%	32%
Net interest income to total revenue	48%	49%
Net fee and commission income to total revenue	26%	25%

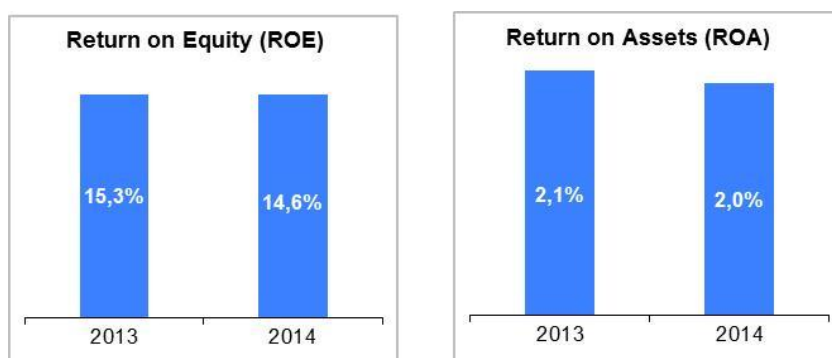
\* Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis;

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

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

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

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



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

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

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

### 3.2 Consolidated statement of financial position

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

#### Consolidated statement of financial position

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



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

### 3.2.1 Assets

#### Gross receivables from clients

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

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

#### Net receivables from clients

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



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

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

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

### Debt securities portfolio

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

### 3.2.2 Liabilities

#### Liabilities towards customers

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

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

### 3.2.3 Source and use of funds

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

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

### 3.3 Equity and the capital adequacy ratio

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

#### Equity\*

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

\* Equity net of net profit/(loss)

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

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

#### Capital adequacy ratio\*

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

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

As at 31 December 2014 capital adequacy ratio of the Bank was 17.5% and remained at the level recorded in 2013.

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

### 1. Lending and other risk exposures

#### 1.1 Lending

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

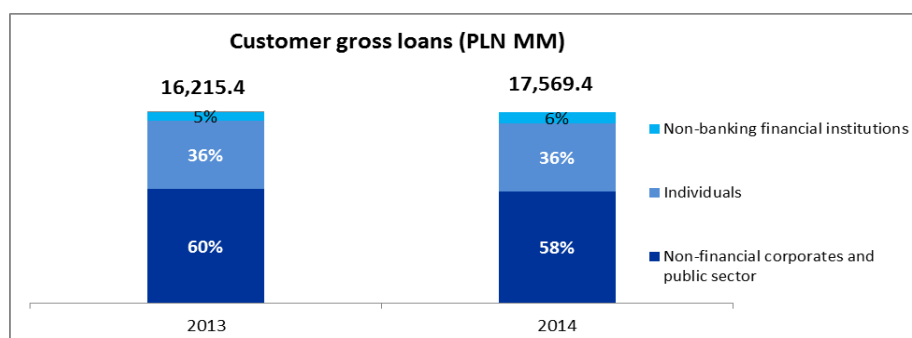
In 2014 the Group focused its credit risk management activities on:

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

#### Gross loans to customers

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

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



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

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

### Concentration of exposure to customers

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

\* Net of equity and other securities exposures

### Concentration of exposure in individual industries \*

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

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

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

## 1.2 Loan portfolio quality

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

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

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

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

\*\* Including IBNR provision.

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

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

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

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

### Impairment of the customer loan portfolio

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	71,307	87,095	(15,788)	(18.1%)
Impairment of receivables	727,589	896,938	(169,349)	(18.9%)
accounted for individually	339,901	374,159	(34,258)	(9.2%)
accounted for collectively	387,688	522,779	(135,091)	(25.8%)
<b>Total impairment</b>	<b>798,896</b>	<b>984,033</b>	<b>(185,137)</b>	<b>(18.8%)</b>
Provision coverage ratio (total loans)	4,5%	6.1%		

### 1.3 Off-balance-sheet commitments

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

#### Contingent off-balance sheet liabilities granted

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

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

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

## 2. External funding

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

#### Funding from banks

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

PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
Other liabilities	10,951	1,925	9,026	468.9%
<b>Total funding from banks</b>	<b>5,122,576</b>	<b>6,378,436</b>	<b>(1,255,860)</b>	<b>(19.7%)</b>
<b>Funding from customers</b>				
PLN '000	As at		Change	
	31.12.2014	31.12.2013	PLN '000	%
<b>Deposits of financial sector entities</b>				
Current accounts	238,351	320,634	(82,283)	(25.7%)
Term deposits	2,877,084	2,939,233	(62,149)	(2.1%)
	<b>3,115,435</b>	<b>3,259,867</b>	<b>(144,432)</b>	<b>(4.4%)</b>
<b>Deposits of non-financial sector entities</b>				
Current accounts, including:	19,299,093	16,983,122	2,315,971	13.6%
Corporate clients	8,594,113	7,703,769	890,344	11.6%
Individuals	6,372,762	5,931,907	440,855	7.4%
Public entities	4,332,218	3,347,446	984,772	29.4%
Term deposits, including:	7,085,420	5,841,724	1,243,696	21.3%
Corporate clients	5,668,835	4,649,633	1,019,202	21.9%
Individuals	1,289,231	975,276	313,955	32.2%
Public entities	127,354	216,815	(89,461)	(41.3%)
	<b>26,384,513</b>	<b>22,824,846</b>	<b>3,559,667</b>	<b>15.6%</b>
<b>Total deposits</b>	<b>29,499,948</b>	<b>26,084,713</b>	<b>3,415,235</b>	<b>13.1%</b>
<b>Other liabilities</b>				
Liabilities from securities sold under agreement to repurchase	-	352,153	(352,153)	(100.0%)
Other liabilities, including:	132,650	131,899	751	0.6%
Cash collateral	78,153	101,646	(23,493)	(23.1%)
	<b>132,650</b>	<b>484,052</b>	<b>(351,402)</b>	<b>(72.6%)</b>
<b>Total funding from customers</b>	<b>29,632,598</b>	<b>26,568,765</b>	<b>3,063,833</b>	<b>11.5%</b>

### 3. Interest rates

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

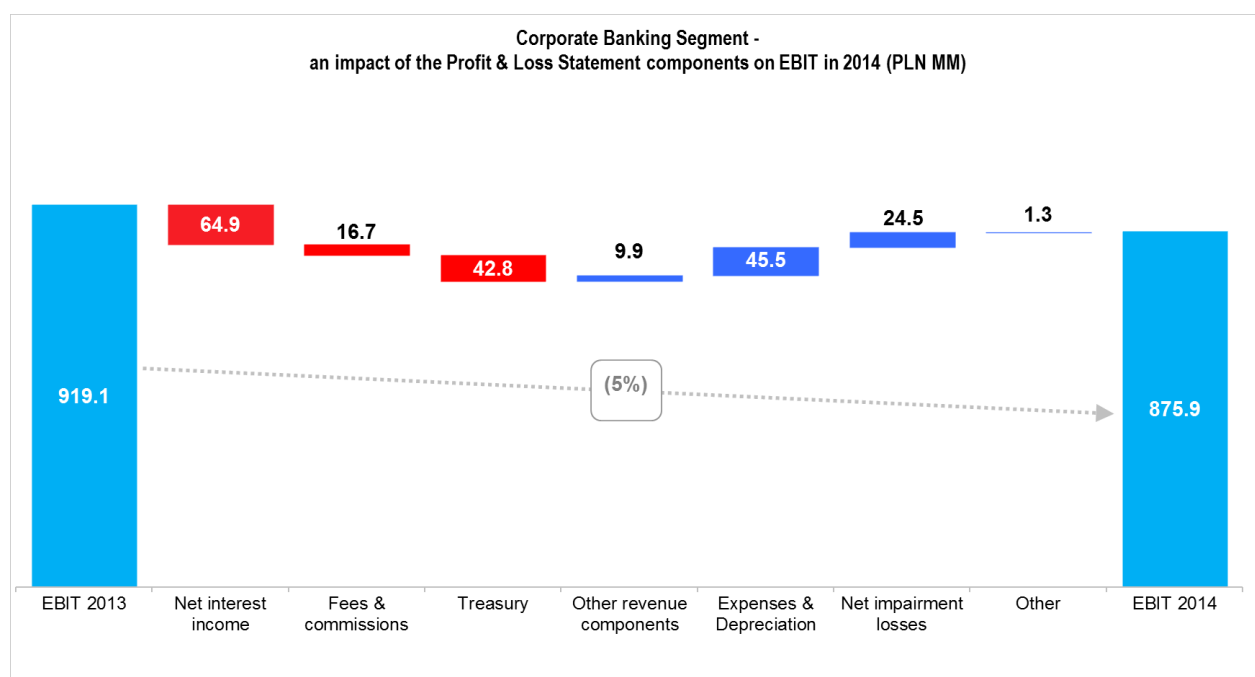
#### As at 31 December 2014

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



**As at 31 December 2013**

in %	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
<b>ASSETS</b>						
Receivables from banks and customers						
- fixed term	4.05	1.85	1.17	13.10	3.34	-
Debt securities	2.89	1.47	2.52	-	-	-
<b>LIABILITIES</b>						
Liabilities towards banks and customers						
- fixed term	2.24	0.24	0.10	2.04	0.21	0.22

**4. Corporate Banking Segment****4.1 Summary of segment's results**

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

- Net interest income of PLN 516.1 million compared to PLN 581.0 million in 2013 – a drop by PLN 64.9 million, mainly as a result of lower revenues from the debt securities portfolio (PLN -75.4 million, i.e. 14.2% YoY). Lower net interest income was also recorded in the area of customer activities, which was mainly related to reduction in base interest rates to a historically low level;
- Net commission income at PLN 279.8 million compared to PLN 296.5 million earned in 2013 – a drop in the income by PLN 16.7 million affected brokerage activities (the effect of lower trading on the WSE and a lower number of transactions in the capital market);
- Net income on financial instruments held for trading and on revaluation of PLN 350.7 million compared to PLN 315.6 million in 2013 (increase by PLN 35.1 million as a result of higher income on activities in the interbank market), net gains on hedge accounting at PLN -0.4 million and net income on investment debt securities at PLN 229.9 million compared to PLN 305.3 million in 2013 (a drop by PLN 75.4 million) – these items are presented under “Treasury” in the chart above.
- Overheads and depreciation at PLN -539.8 million compared to PLN -585.3 million in 2013 – a drop by PLN 45.5 million mainly as a result of lower personnel costs.

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



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

## 4.2 Institutional Bank

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

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

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

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

### Assets

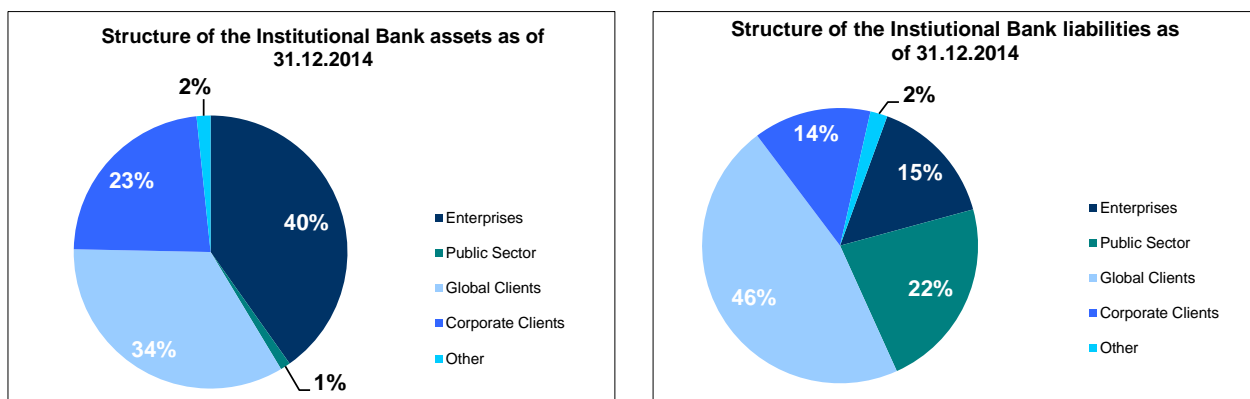
PLN million	31.12.2014	31.12.2013	Change	
			PLN'000	%
Enterprises, including:	4,251	3,403	848	25%
SMEs*	1,683	1,611	72	4%
Large enterprises*	2,568	1,792	776	43%
Public Sector	126	282	(156)	(35%)
Global Clients	3,589	3,655	(66)	(2%)
Corporate Clients	2,435	2,730	(295)	(11%)
Other**	174	105	(69)	(66%)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

### Liabilities

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

\* Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SME) and from PLN 150 million to PLN 1.5 billion (large enterprises).

\*\* "Other" includes, among others, clients under restructuring and clients of Handlowy-Leasing Sp. z o.o. who are not clients of the Bank.



#### Key transactions and successes of the Institutional Bank in 2014:

- As part of the Emerging Market Champions, the Commercial Bank organized a series of five conferences entitled "Business without borders" in Warsaw, Kraków and Katowice. The subject was international business, in particular in the countries of Central Europe. During one of the conferences, heads of Citi Commercial met with customers of the Commercial Bank. From programme inception, customers of the Bank have expressed interest in opening more than 100 accounts in other countries. The main direction for expansion of the Bank's customers remains Europe;
- As part of financing of corporate customers:
  - The Bank arranged bond financing for a company held by the State Treasury and took up a major amount of the bonds (PLN 450 million);
  - As part of a syndicate, the Bank participated in the financing of current debt at EUR 2 billion of customers in the fuel sector, the BHW share in financing is EUR 100 million.
  - In July 2014 the Bank and an international banking consortium signed a revolving loan agreement with a mining sector customer for \$2.5 billion, the Bank's share in the financing is \$200 million. This Agreement was signed for 5 years. The Bank acted as the Global Coordinator and Lead Arranger;
  - The Bank financed invoice discounting for a major construction company at PLN 13 million with a prospect of increase to PLN 40 million;
  - The Bank issued 3Y bonds for a financial sector customer, worth PLN 1.4 billion.
- The Bank closed among other things the following transactions with customers in the Global Customers segment:
  - Securitization of the portfolio of mortgage loans and cash loans for one of the leading Polish banks;
  - Call for buy-back of shares related to the acquisition of one of the banks in the Polish market;
  - Issue of 2Y bonds for a financial institution worth PLN 82 million as part of the Bonds Issue Programme managed for that institution.
- In 2014 the Commercial Bank (Enterprises and Public Sector) achieved an increase in customer assets by 25% compared to the end of 2013. Among others, this was affected by the following financing transactions completed in 2014:
  - Bonds Issue Programme for up to PLN 500 million for a wholesaler of motor parts and accessories (first issue of bonds maturing in 5 years was sold to investors in October 2014);
  - An investment loan of PLN 98 million for a producer of power switchgear and control gear;
  - A long-term loan of EUR 10.9 million, a payment loan of PLN 26.7 million and an overdraft of PLN 17.7 million as part of a syndicated loan, where the Bank acted as the Agent, for a manufacturer of other basic organic chemicals;
  - A payment loan of PLN 53 million for a manufacturer of plastic products;
  - A letter of credit for PLN 20 million for a distributor of motor parts;
  - A revolving loan of PLN 28 million for a manufacturer of distilled alcoholic beverages and beer;
  - An investment loan of PLN 16 million, a long-term loan of PLN 8 million and a loan secured in current account at PLN 2.3 million for a manufacturer of other parts and accessories for motor vehicles except motorcycles;
  - An overdraft of EUR 4.34 million and a revolving loan of PLN 20 million for a manufacturer of office and shop furniture;

- An investment loan of PLN 20.7 million for an organizer of fairs, exhibitions and conferences.
- Customer acquisition: in the Commercial Bank, 455 new customers were acquired in 2014, including 47 Large Enterprises, 312 Small and Medium-sized Enterprises, and 96 Public Sector Customers – in 2014 the Bank won a tender to provide services to the Town of Jaworzno. Currently Citi Handlowy is the leader in providing services to the Public Sector in the market, with customers such as the cities and towns of Warsaw, Tarnów, Wałbrzych, Inowrocław, Olsztyn, Elbląg, Kołobrzeg, Jaworzno and many other units of the Public Sector.

### 4.3 Treasury

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

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

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

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

### 4.4 Transaction services

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

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

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

Priorities of the transactional banking development in 2014 included:

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

#### Client activation and *share-of-wallet* increase

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

### **Development and commercialization of the e-banking application**

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

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

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

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

### **Trade finance expansion**

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

### **Deposits and current accounts**

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

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

### **Liquidity management products**

Liquidity management structures are advanced instruments that optimize cash flows for a single customer or within a capital group. The liquidity management products offered by the Bank make it possible to ensure optimized management of excess cash generated by overly liquid companies to allocate it to entities with an increased demand for capital. The Bank's liquidity management products include:

- consolidated account;
- actual cash pooling;
- notional cash pooling;
- net balance.

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

### **Electronic banking**

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

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

In H2 2014, further enhancements were introduced for mobile access, such as the new, more legible layout and improvements in searching for transactions or balance information. With these changes, the

mobile version of CitiDirect is even more convenient and intuitive to use. The total number of transactions executed in mobile systems of the Bank exceeded 100,000 and the number of customers to whom this form of service was provided was 3,600.

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

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

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

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

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

### MicroDeposits

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

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

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

### Receivables processing: SpeedCollect, Direct Debit and Cash Products

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

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

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

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



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

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

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

### Foreign bank transfers

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

### Local bank transfers

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

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

### Electronic Postal Transfers

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

### Card products

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

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

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

### EU-oriented advisory services

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

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

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

### Trade finance products

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

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

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

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

#### 4.4.1 Custody services

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

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

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

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

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

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

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

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

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

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

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

#### 4.5 Brokerage Activity

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

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

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

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

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

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

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



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

**Summary financial data as at 31 December 2014\***

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

\*pre-audit data

**4.6 Leasing**

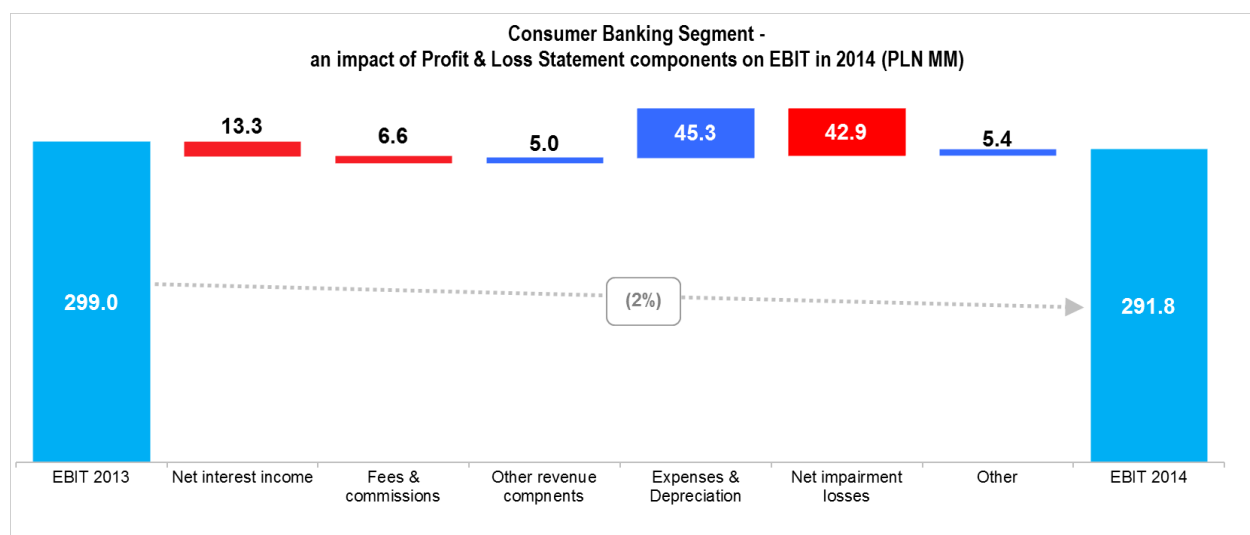
In accordance with the decision of the Bank's Management Board to reduce the scope of leasing activities of the Bank's Group, taken in March 2013, the scope of activities of Handlowy-Leasing Sp. z o.o. ("Handlowy-Leasing", "HL") was limited only to handling of lease agreements entered into by 30 April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

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

**Summary financial data as at 31 December 2014\***

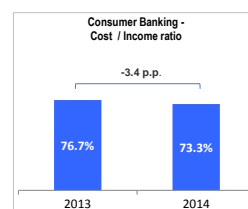
Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2014
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	264,580	139,765	4,566

\*pre-audit data

**5. Consumer Banking Segment****5.1 Summary of the segment's results**

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

- Net interest income of PLN 647.8 million compared to PLN 661.1 million in 2013 – a drop by PLN 13.3 million, i.e. 2.0% mainly as a result of lower revenues on interest caused by another drop in interest on lending products following market changes in interest rates, which was partly compensated by the drop in interest costs despite a considerable increase in deposits balance (by PLN 0.8 billion, i.e. 10.9%);
- Net commission income at PLN 339.1 million compared to PLN 345.8 million earned in 2013 – a drop by PLN 6.6 million i.e. 1.9% mostly as a result of lower commissions on credit and debit cards (a decrease in the interchange fee to 0.5%). On the other hand, in 2014 higher revenues from the sale of investment and insurance products were earned compared to 2013 (by PLN 18.7 million, i.e. 20.5%), mostly as a result of greater customer interest in investment funds and investment products related to funds;
- Other components of revenues include the net income on financial instruments held for trading and on revaluation (a drop by PLN 1.9 million), dividend income (an increase by PLN 0.6 million) and net other operating income (an increase by PLN 6.3 million);
- Overheads and depreciation at PLN 734.1 million compared to PLN 779.3 million in 2013 – a drop by PLN 45.3 million i.e. 5.8%, mainly affected by the decline in employee costs, partially offset with higher depreciation by PLN 10.6 million among others related to expansion of the retail product offering;
- A reversal of net impairments at PLN 19.4 million in 2014 compared to PLN 62.3 million of net impairment reversal in 2013. The reduction in net impairment reversal by PLN 42.9 million is the result of gradual stabilization of the portfolio quality in 2014, which generates lower dissolution of the IBNR than in 2013 and the dwindling expected recoveries from the portfolio with the impairment and the increase in the portfolio average age. In Q4 2014 part of retail exposures was sold. The sale involved receivables related to cash loans and credit cards with impairment at PLN 161.6 million for PLN 34.7 million.



## 5.2 Selected business data

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

## 5.3 Key business achievements

### Credit cards

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

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

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

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

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

## **Bank Accounts**

### Current accounts

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

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

### Savings accounts

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

### Citigold and Citi Priority

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

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

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

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

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

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

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

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

## **Credit and Lending Products**

### Cash loans

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

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

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

### Mortgage products

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

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

## **Investment and Insurance Products**

### Investment Products

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

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

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

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

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

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

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

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

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

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

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

#### Insurance Products

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

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

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

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

## **6. Development of distribution channels**

### **6.1 Branch network**

#### **Smart Banking Ecosystem**

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

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

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

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

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





## 6.2 Changes to the branch network

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

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

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

### Number of branches (at the end of period)

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

## 6.3 Internet and telephone banking

### Mobile banking

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

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

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

### Online Banking

As a result of actions aimed at popularizing online banking as the channel of contact with the Bank and distribution of banking products, the number of active Citibank Online users, namely users who logged into

on-line transactional website at least once in a month using their PC was 332,000 at the end of 2014, an increase by 2% compared to the end of 2013.

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

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

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

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

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

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

## Social Media

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

## 7. Changes in IT technologies

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

The following solutions were implemented in 2014:

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

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

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

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

## 8. Equity investments

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

### 8.1 Strategic portfolio

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

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

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

### 8.2 Divestment portfolio

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

The strategic objective of the Bank with regard to companies in the divestment portfolio is to gradually reduce the Group's investment. The assumption is that individual participations will be sold whenever



market conditions are most favorable. The divestment portfolio comprises equity investments without a pre-determined rate of return. The Bank does not plan any additional equity investments intended for subsequent divestment. The divestment portfolio may grow if the Bank chooses to convert its debt to equity and wherever the Bank acquires investments in the course of its operations.

### Special purpose investment vehicle companies

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

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

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

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

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

## 9. Awards and honors

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

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

- The editors of The **Warsaw Business Journal** presented Polish companies with certificates for the first position in the rankings of this year's edition of the **Book of Lists**. DMBH ranked first in the Book of Lists ranking for the highest share in session trading on the Warsaw Stock Exchange. The Book of Lists is the biggest and oldest business publication on the Polish publishing market, which presents – in Polish and in English – around 70 rankings of more than 2,500 best performing companies in different industries in Poland.
- Citi Handlowy was one of two banks among the six companies awarded for excellent investor relations. The survey was carried out by **TNS Polska** as part of the project "Public Company of the Year" run by Puls Biznesu. The survey among 130 analysts, consultants and stock brokers evaluated all companies listed on the Warsaw Stock Exchange;
- 16 CSR initiatives of Citi Handlowy were commended by the Responsible Business Forum in its **12<sup>th</sup> edition of "Responsible Business in Poland. Good Practice" report** which has been published since 2002. It is the only such study which summarizes key issues in the area of CSR business activities. The practices listed in the report included a record-high number of 16 initiatives of Citi Handlowy, i.e. 6 more than in 2013. The new practices (first time in the report) included the Aleksander Gieysztor Award, the Bank Handlowy Award, the Roots Program, the Volunteer Club, Be Entrepreneurial, Business Start-up, Environmental Management System Maintenance, Energy Management System Implementation, and the Live Well Program;
- Results of the 8<sup>th</sup> edition of the **Dziennik Gazeta Prawna Responsible Companies Ranking** were published on 23 April. Citi Handlowy has been listed in the ranking since the first edition, ranking high in its industry (banking, financial sector and insurance);
- Citi Handlowy was named the Best Foreign Bank in Poland in the **EMEA Finance Europe Banking Awards 2013** ranking. The prestigious financial magazine EMEA Finance awarded Citi Handlowy for consistent development and high profitability. In addition to a positive appraisal of the Bank's assets growth and generated financial results, the ranking appreciated the innovative edge of its products and services. The Smart Banking Ecosystem was also acknowledged. EMEA Finance awards have been given for six years to the best financial institutions in the emerging markets of Europe, Middle East and Africa (EMEA);
- In November 2014 Citi Handlowy Kronenberg Foundation won the **"Faces of Entrepreneurship"** competition organized by the **Global Entrepreneurship Week Foundation**.
- For the eighth time, Citi Handlowy was quoted in the **RESPECT Index**, the first index of responsible companies in the Central and Eastern Europe, initiated by the **Warsaw Stock Exchange**.

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

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

#### 1.1 Economy

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

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

Decision of the European Central Bank to launch a programme for the purchase of assets may lead to an increased influx of capital to countries with a relatively high level of market interest rates, including Poland. As a result of capital inflows, the exchange rate of zloty to euro would be subjected to appreciation pressure, thereby worsening the competitive position of Polish exporters. On the other hand, the decision of the Swiss Central Bank to abandon the defence of the CHF to euro exchange rate means that the cost

of debt among some of households could increase by over 10%. If the pressure on the appreciation of the franc increases, this could affect the quality of loans in the Polish banking system.

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

## 1.2 Regulatory and legal risks

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

The most relevant of these legal and supervisory regulations include:

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

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

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

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 ("CRD IV") on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR") – issues regulated by CRD IV include the establishment of banks, capital buffers, supervision, management and corporate governance of banks and investment firms. CRR contains regulations regarding among others own funds, capital requirements, liquidity and leverage. The Directive requires transposition into the Polish law, while the Regulation will apply directly in all EU Member States. The Directive is to be transposed into national law by 1 January 2014. Work is underway on national transposition of CRD IV in Poland and harmonization of the Polish law to directly applicable provisions of CRR. As a result, the Ministry of Finance drafted an act amending the Banking Law and some other Acts and presented the draft on 16 April 2014 for consultation, public consultation and opinion to institutions such as the Polish Bank Association, the National Bank of Poland and the Polish Financial Supervision Authority. The transposition of CRD IV will be accompanied by implementing regulations issued under the mandate given in the draft act. Furthermore, pursuant to CRD IV and CRR, regulatory technical standards will be implemented in subsequent years.
- On 26 June 2014, the Polish Parliament passed a law amending the Consumer Bankruptcy Act: individuals in distress for reasons beyond their control will be allowed to file for bankruptcy on more advantageous terms. The main solutions used in the Act include:
  - Elimination of barriers in accessing consumer bankruptcy: the court may dismiss a motion to declare consumer bankruptcy where the consumer becomes insolvent due to willful action or gross negligence, provided that negative conditions do not apply (e.g. a bankruptcy procedure was opened or the debtor did not file a motion for bankruptcy despite being insolvent within the last 10 years). At this time, a debtor may declare bankruptcy if it arises from exceptional circumstances beyond the debtor's control, in particular if the debtor assumes an obligation while being insolvent or the debtor's employment contract is terminated for reasons caused by the employee or with the employee's consent;
  - Reduced cost of the consumer bankruptcy procedure, to be temporarily paid by the State Treasury;
  - Option of creditor agreement as part of the bankruptcy procedure in order to e.g. allow the debtor to retain his or her home in exchange for an individual repayment plan approved by the majority of the creditors (currently, only liquidation bankruptcy is allowed);
  - Moving beyond a strictly formal approach to the bankruptcy procedure: the court may overlook minor errors in the consumer's applications and declarations if justified by principles of social co-existence, in particular on humanitarian grounds;
  - Consumer bankruptcy may also be declared if the debtor only has one creditor, and in the case of individuals running a farm;

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

The amended provisions came into force on 31 December 2014.

- The Consumer Rights Act of 30 May 2014 (Journal of Laws of 2014, item 827) was published on 24 June and entered into force on 25 December 2014. The Act will replace the existing Acts:
  - Act of 2 March 2000 on protection on some consumer rights and hazardous product liability;
  - Act of 27 July 2002 on special terms of consumer sales and amending the Civil Code.

With respect to the banking activity, the main amendment is the elimination of the form of sale outside the enterprise's premises. At present, the Act provides for different requirements for financial services sold remotely and sold outside the enterprise's premises. After the new Act takes effect, all sales of financial services outside a branch will be considered remote sales.

Furthermore, the Act introduces an amendment of the Telecommunication Law whereby the use of telecommunication terminals and automated calling systems for direct marketing will be forbidden unless pre-approved by the subscriber or end user.

- The Act of 28 November 2014 amending the Act on payment services, which entered into force on 29 January 2015. According to the Act, the interchange fee rate may not exceed 0.2% of the unit value of a domestic payment transaction made with a debit card, and 0.3% of the unit value of the domestic payment transaction made with a credit card. For a payment card other than a debit card or credit card, the interchange fee rate may not exceed 0.3% of the unit value of a domestic payment transaction. Within three months of the effective date of the Act, payment service providers are required to adjust the agreements concluded prior to the effective date of the Act to the provisions of the Act.
- Amendment to the Act on Investment Funds whose purpose is to implement Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No. 1060/2009 and (EU) No. 1095/2010. Additionally, the draft implements Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions. The expected date of its entry into force is 1 July 2015. The Act provides for a six-month grace period during which undertakings can adjust their activities to amended regulations. The changes resulting from the Act and from the EU Regulation have an impact on the Bank's performance of its role as a depositary and will require amendments to the agreements signed by the Bank.
- The new Act on bonds passed by the Parliament on 28 November 2014 to replace the Act on bonds which has been in effect since 1995. On 14 January 2015, the Commission of Public Finance will examine the resolution of the Senate with amendments to the draft Act on bonds as passed by the Parliament on 28 November 2014. The expected date of entry into force is 1 July 2015. The Act will have an impact on the existing bond issue programmes and will require making changes to the agreements concluded by the Bank with the issuers.
- Restructuring Act (draft under construction) – with the effective date specified in the draft as at 1 July 2015. The draft proposes solutions which change the method of dealing of entities and with entities in financial difficulty, which may affect both the assessment of credit risk when extending certain types of financing as well as the speed of debt collection.
- Recommendation U of the Polish Financial Supervision Authority: on 24 June 2014, the Polish Financial Supervision Authority adopted Recommendation U concerning good practice of bancassurance. The Recommendation should be implemented in the practice of supervised institutions no later than 31 March 2015. Its implementation may have a significant impact on the distribution of insurance products by banks, their customer relations, bancassurance policy management and monitoring. The main issues covered by the recommendation include: regulating the obligations of the management board and the supervisory board in the implementation of bancassurance policy, conflict of interest rules for banking activity (in particular where a bank acts both as the insurer and the insurance intermediary), requirement for banks to clearly communicate their role (intermediary or insurer) to customers, rules for banks' reliable customer information policy, giving customers a choice of insurance products and insurers, enabling customers or their inheritors to raise claims directly where a bank decides not to raise claims from the insurer, the requirement for banks to set their fee on offered insurance products in proportion to costs incurred

by them, the requirement for banks to have an effective bancassurance internal control system (including monitoring of processes involved in the offering of insurance products and application of the correct recognition of income from the products offered).

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

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

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



### 1.3 Competition in the banking sector

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

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

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

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

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

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

### 2.1 Liquidity risk

As is typical of banking activity, the Bank experiences maturity gaps between loans and the underlying deposits. These can give rise to problems with current liquidity in case of a build-up of large payments to customers. The management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Assets and Liabilities Committee, which defines the strategy that is implemented by the Financial Markets Sub-Sector.

The key task of the Assets and Liabilities Committee of the Bank is to manage the structure of the balance sheet in order to increase its profitability, to determine acceptable limits of financial risk for specific areas of operation, to coordinate the interest rate pricing policy, and to make decisions concerning the transfer pricing system used within the Bank.

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

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

## 2.2 Foreign exchange risk

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

## 2.3 Interest rate risk

Similar to other Polish banks, the Bank is exposed to a risk arising from a gap in the timing of changes in interest rates on its assets and the underlying liabilities (revaluation date gap risk) and from the sensitivity of the value of debt securities and of interest rate derivatives to changes in the market interest rates (pricing risk). In respect of the revaluation date gap risk, interest rate risk can arise when a reduction in income caused by lower interest rates on loans proves impossible to offset through a corresponding reduction in interest rates paid to deposit holders. This risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk can arise when changes in the market rates have an adverse effect on the valuation of instruments in the trading portfolio and, consequently, on the Bank's financial result or on the valuation of the portfolio of securities available-for-sale and, consequently, on the Bank's equity. The management of interest rate risk is a responsibility of the Assets and Liabilities Committee of the Bank which, among other things, determines the Bank's interest rate risk pricing policy. In 2014, the level of interest rate risk ranged between moderate and high both for the trading portfolios and the bank portfolios.

## 2.4 Credit risk and counterparty risk

Credit risk and counterparty credit risk represent a potential loss resulting from a customer's inability to pay its contractual obligations due to insolvency or other reasons, taking account of collateral, unfunded credit protection and other loss mitigating agreements. For counterparty risk, the size of the Bank's exposure fluctuates over time. If the transaction is not settled in time, the Bank runs an additional risk of changing the contract value. The Bank introduces limits for the credit risk and counterparty risk at the exposure level to the entity or a group of related economic entities. In addition, portfolio-level limits are established that support the process of management and on-going monitoring of the credit portfolio. The process of proactive portfolio quality management covers not only assigning appropriate ratings to exposures, but also assigning them with appropriate internal classifications, recognizing their impairment and applying relevant corrective or collection actions. The Bank creates impairment losses for credit exposures as required by the regulations. The Bank's Management Board is of the opinion that the current level of impairment losses is adequate. As the possibility of change in the external environment or other circumstances that could adversely impact the financial condition of the Bank's customers always exists, there is no certainty that some future need for adequate provisioning against the existing asset portfolio will not have an adverse effect on the Bank's financial position or that the provisions and the impairment losses and collateral in place will prove sufficient to absorb the possible losses arising out of lending.

## 2.5 Operational risk

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

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

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

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

The total amount of gross operating losses recorded in 2014 is 0.16% of 2014 revenues (this ratio pertains to losses posted to the financial result).

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

### **1. General development objectives of the Group**

In 2014 the Bank continued the 2012-2015 Strategy as adopted in 2012. The Strategy is based on four fixed pillars: customer segmentation, business model, quality and innovation, and effectiveness.

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

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

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

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

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

### **1.1 Corporate and Commercial Bank**

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

It is an objective of the Bank to enhance effectiveness by improving processes, focusing on innovations and raising the quality of services. In terms of transactional banking, the Bank will continue to expand the

range of products for corporate customers in order to support the acquisition of new customers and maximize participation of the existing customers in the portfolio, paying special attention to deepening of relationships with credit customers acquired in 2014.

## 1.2 Brokerage activity

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

## 1.3 Consumer Bank

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

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

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

# VIII. The Bank's community initiatives and cultural sponsorship

## 1. Corporate Social Responsibility (CSR)

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

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

## 1.1 Relationships with customers – market practices

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

The Smart Banking Ecosystem is a new approach to Customer services, customer needs and expectations. Smart branches are not only about the new image, but most of all, the new quality of

service. There are no standard cash desks, employee areas or traditional information brochures. Service is provided via digital media, touchscreens or tablets. The Smart Banking Ecosystem consists of 12 branches, mainly located in shopping galleries, places most frequented by the current and potential Customers of the Bank.

#### **Reliable information – ethics in advertising**

The Bank has elaborated and implemented the principles of transparent communications with customers. They provide, among other things, for delivery of accurate and transparent product information, execution of understandable agreements and distribution of clear information on costs, risks and possible benefits. Such presentation of a proposal is to enable a customer to make an informed choice. Employees know and adhere to the principles of transparent communications. The policy and standards applicable at the Bank in the areas of top quality customer service, complaint processing and responsible marketing are subject to relevant internal legislations, including the “Advertising Code of Ethics” and the “Ethical Business Practices of Bank Handlowy w Warszawie S.A.”

#### **Customer satisfaction surveys**

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

#### **Complaints**

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

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

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

#### **Data protection and customer privacy**

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

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

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



## 1.2 Workplace practices

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

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

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

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

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

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

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

### Employee satisfaction surveys

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

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

### Workplace diversity

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

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

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



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

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

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

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

### **Dialogue and freedom of association**

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

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

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

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

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

### **Employment restructuring**

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

### **Employee voluntary work programme**

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

communities. In 2014, as part of the Citi Global Community Day, Citi volunteers completed 187 social projects addressed to nearly 23,000 people.

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

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

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

### 1.3 Environmental initiatives

One of important rules effective in the Bank is taking care of natural environment. The Bank is obliged to carry on its activities in accordance with rules of sustainable development. In 2007, with a resolution of the Management Board, the Bank introduced a comprehensive Environmental Management Plan. In 2012 the Bank adopted the Environmental Policy and implemented the Environmental Management System (SZŚ). In 2013 the Bank introduced the Energy Policy and implemented the Energy Management System (SZE). As part of the policies implemented, the Bank defined the following objectives: increase the level of waste segregation and recycling; reduce CO<sub>2</sub> emissions, strive for the most effective management of utilities; minimize consumption of raw materials; achieve the most effective energy management; minimize consumption of power materials; support the purchase of power-saving products and services and achieve an improvement in the energy result.

#### Direct environmental impact

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

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

In 2013 the actions brought measurable benefits for the Bank and the environment, namely reduced electricity consumption by 1477 MWh, reduced water consumption by 5564 m<sup>3</sup>., and reduced CO<sub>2</sub> emissions by 936.5 metric tons.

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

#### Employee education

The Bank carries on education and information campaign in the field of environmental protection, addressed to employees and suppliers of services. These include training courses and messages, articles made available on the intranet, and encouraging to segregate the waste, preserve water and energy, popularize the Environmental Management System and Energy Management System. Every year, the Bank actively participates in the Earth Hour and Earth Week. In 2014, power was shut down in 24 branch during the Earth Hour. During the Earth Week, information was published on the completed environmental

friendly projects. An organic menu and freshly squeezed juices were provided to employees. Employees were provided with containers for their private electrical and electronic waste. A competition for an eco-project was announced among employees of the Bank. Under the awarded project "My city without electric and electronic waste", old electronic equipment was sent to the waste collection depot, Elektro eko. In return, the Educational Fund provided vouchers for the purchase of teaching aids, which were then provided to a school in the Ursus district of Warsaw.

### Indirect environmental impact

Under agreements signed with Kreditanstalt für Wiederaufbau (KfW) and with funds of the Council of Europe Development Bank as part of SME&Municipal Finance Facility Energy Efficiency Window, in 2014 the Bank offered two lending programmes to its customers, under which the Customers could finance projects leading to an increase in energy efficiency: financing of projects which meet eligibility criteria for investments increasing the energy efficiency and pursued by micro, small and medium enterprises in Poland; financing of projects which meet eligibility criteria for investments in terms of improvement of energy efficiency and use of renewable energy sources in Poland, pursued by local authorities at the level of municipality, or entities which fulfil statutory tasks of municipalities (funds in this programme were fully utilized in 2014). Consequently, the Bank and its Customers were very successful in performance of programme goals. In accordance with preliminary energy audits, the accumulated environmental effect for over 120 projects financed under both programmes translates to reduction in CO<sub>2</sub> emissions by 31,702.00 tons and the annual energy savings equal 26,340.00 MWh.

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

## 1.4 Social commitment and community development

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

As part of financial education and business, in 2014 the Foundation was involved in nine nationwide programmes, which fill the gap in the education system, by shaping aware consumer and business attitudes among young people entering the market and among the adults. This educates them how to be a responsible borrower, a conscious saver or an effective investor, and how to manage their own business.

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

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

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

### Citi Handlowy Kronenberg Foundation programmes

- **My Finances** is the largest financial education programme for young people in Poland. The programme is co-financed by the Leopold Kronenberg Foundation and the National Bank of Poland and implemented in schools by the Junior Achievement Young Enterprise Foundation Poland. In 2014, 100,000 students participated in the programme implemented by 1,650 teachers.
- **Savings Week** is an educational action in the media to promote savings and the skills of rational management of personal finances among Poles. Performed together with the Think! Foundation. The goal of the action is to develop systemic changes in education focused on management of personal finances. The media campaign for the 7<sup>th</sup> edition of "Attitudes of Poles to saving" survey reached 3

million people. As part of the "Saving Week" in 2014, a number of debates were held on financial education and on challenges faced by the young people in the labor market, organized in cooperation with universities, such as the Gdańsk University of Technology, the Economics and Management Faculty of the University of Szczecin, the University of Silesia in Katowice and the local government of the Świętokrzyskie Voivodeship. The events also featured competence workshops for university students organized in co-operation with Citi Handlowy HR experts. During the debates, "First Million" student competition was held. The debates and competitions were attended by a total of 4,000 people. In addition, the University of Szczecin introduced optional classes for students, based on the "First Million" gaming platform.

- **Financial Independence of Women** is a programme for women experiencing or exposed to economic violence. The programme is implemented in collaboration with the Women's Rights Centre. In 2014 the programme reached 720 girls and women who experienced or were endangered with economic violence.
- **Bank Handlowy Award** for an outstanding scientific contribution to development of economics and finance – this competition aims to promote the most valuable theoretical publications in the field of economics and finance. A total of 37 publications were submitted to the 20<sup>th</sup> edition of the award.
- **Be Entrepreneurial** is a financial education programme addressed to students of middle schools and secondary schools. It is implemented in cooperation with the Junior Achievement Young Enterprise Foundation Poland. The goal of the project is to pass down knowledge about widely understood enterprise and develop skills and competencies in this area by fulfilling practical student projects (middle schools) and establish and run a general company (secondary schools). Actions within the programme reached 9,240 students from 550 schools in Poland.
- **Business Startup** is a two-part programme which supports young entrepreneurs (assistance in opening and running a business and support for existing companies). It is implemented in cooperation with Academic Incubators of Entrepreneurship. The objective of the project is to promote entrepreneurship among students and to help them make their business vision come true. A total of 350 students and 100 start-ups operating in the market participated in the 2014 edition.
- **Business in Female Hands** is a new programme launched in May 2014 at the 4<sup>th</sup> Conference of the Woman Entrepreneur Network "How to Grow a Successful Company". It is implemented in co-operation with the Woman Entrepreneurship Foundation. The objective of the programme is to create a cluster of women's companies in Warsaw. Nearly 200 applicants enrolled for the first edition of the programme and 50 of them were selected as participants. 43 companies were established as part of the project.
- **Micro Company of the Year 2014** is a competition for owners of microbusinesses to promote the philosophy of micro-entrepreneurship. The results of the competition were announced on 17 June 2014. The winner was Sant-Tech sp. z o.o., a producer of sandblasters and other abrasive blasting technologies. A record high number of 272 businesses signed up for the 2014 competition.
- **Emerging Market Champions Award:** a competition addressed to Polish companies which have been successful abroad. The first edition was held in 2014, under patronage of Bronisław Komorowski, President of the Republic of Poland. The goal of the competition is to choose and award business leaders, Polish companies which have expanded and developed in the international markets. A total of 36 companies were selected for the competition. The 2014 award was given to KGHM Polska Miedź S.A. The award was presented on 2 October 2014, during the European Forum for New Ideas (EFNI). Before award presentation, "Competition in today's world" discussion panel was held, with participation of Adam Jasser, President of the Office for Competition and Consumer Protection and Marc C. Merlino, Head of Global Banking, Citi. 364 people participated in this event.
- **Aleksander Gieysztor Award** is the most prestigious award given annually to institutions or individuals in recognition of their outstanding achievements in protection of Polish cultural heritage. The winner of the 15<sup>th</sup> edition was the Rasos Cemetery Restoration Association. The award was presented at the Warsaw Royal Castle on 6 February 2014.
- **Recovery of Polish Art** is a new programme which aspires to recover the cultural heritage lost by Poland during WWII. In 2014, the Leopold Kronenberg Foundation at Citi Handlowy in co-operation with the Ministry of Foreign Affairs gave to the National Museum in Warsaw a collection of 42

drawings and lithographs by prominent Polish painters, such as Juliusz Kossak, Aleksander Orłowski, Leon Wyczółkowski and Józef Chełmoński, which had been recovered in late 2013.

- **Roots (Korzenie):** a programme under which the Foundation remembers the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In 2014, the Leopold Kronenberg Foundation at Citi Handlowy actively participated in the initiatives of the European Association for Banking and Financial History. The Foundation also continued the search in the St. Petersburg archives for the original statute of Bank Handlowy, dated 1870 and signed by the Chairman of the Council of State Grand Duke Constantine, who approved the inception of the Bank. More than 31,000 digital copies of materials relating to the history of Bank Handlowy and the Kronenbergs have been compiled.
- **Employee Volunteering Programme of Citi Handlowy** aims to promote the social commitment of present and former employees of the Bank. In 2014, 224 volunteer projects were implemented (including 187 as part of the Citi Global Community Days) and volunteers (including those from outside the organization) were involved 2,934 times.
- **Grant Program:** a contest through which the Citi Handlowy Kronenberg Foundation supports the most valuable projects carried out by non-profit organizations in the area of education and local development. 24 grants were given in 2014.
- **Responsible Business League (LOB)** is a programme that promotes the CSR concept as a business standard in the academic community. The programme is organized by the Responsible Business Forum in co-operation with the Kronenberg Foundation, Orange PGNiG and public universities. The next edition of the programme started in the academic year 2013/2014. 9,000 participants took place in the programme. The programme was organized under honorary patronage of the Ministry of Economy and the Ministry of Science and Higher Education.

## 2. Cultural patronage and sponsorship

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

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

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

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

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

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

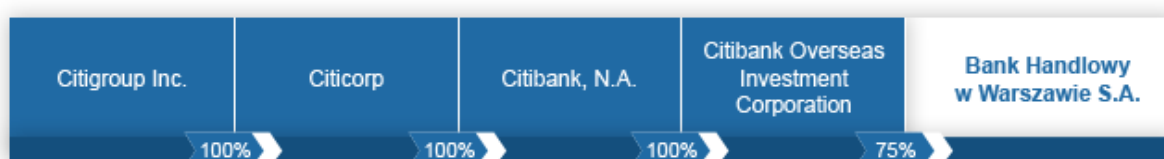
## IX. Investor information

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

#### 1.1 Shareholders

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

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



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

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

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

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

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

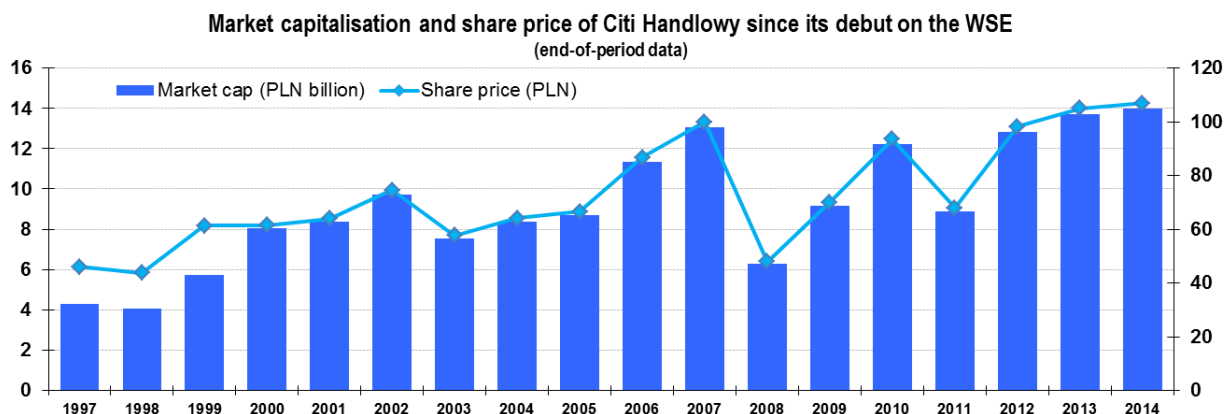
\* In 2014 Allianz took over OFE Warta assets



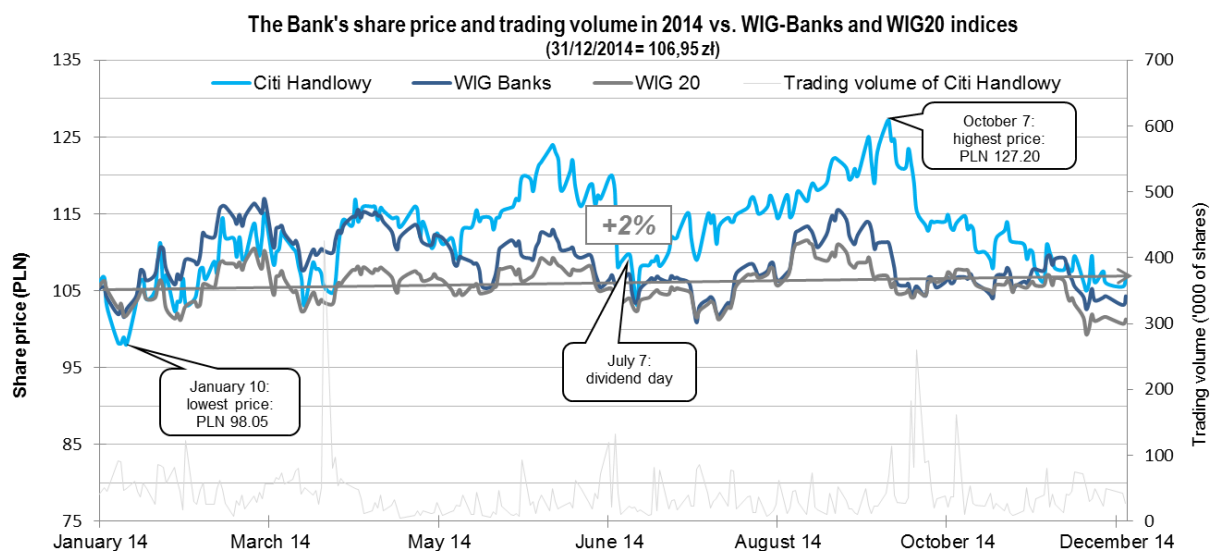
## 1.2 Performance of the Bank's shares on the WSE

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

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



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



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

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

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

## 2. Dividend

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

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

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

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

\* Dividend-pay-out ratio for 2004 - 100% plus prior year profits

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

\*\*\* As recommended by the Management Board on March 10, 2015.

## 3. Rating

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

In 2014, the ratings remained unchanged. The last change of Moody's rating took place on 22 June 2012, while Fitch affirmed ratings at the unchanged level on 14 April 2014.

As at the end of 2014, the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits in the domestic currency	Baa3
Rating for long-term deposits in foreign currencies	Baa3
Rating for short-term deposits in the domestic currency	Prime-3
Rating for short-term deposits in foreign currencies	Prime-3
Financial strength	D+
Financial strength rating outlook	Stable
Long-term and short-term deposits in the domestic and foreign currency rating outlook	Stable

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

Long-term IDR	A-
Outlook	Stable
Short-term IDR	F2
Viability rating (VR)*	bbb+
Support rating	1

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

#### 4. Investor relations

An integral element of the Bank's information policy, intended to cater to information needs of all persons and institutions interested in corporate information about the Company, are investor relations which provide information to the existing and potential investors as well as capital market analysts and rating agencies. In terms of investor relations, the main tools of the information policy are:

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

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

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

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

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

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

It is the priority of Bank Handlowy w Warszawie ("Bank", "Company") to become the most respected financial institution in Poland with a considerable focus on business and social responsibility. Since 2003, the Bank has complied with corporate governance rules approved by the Warsaw Stock Exchange ("WSE") as the Best Practices in Public Companies 2005 and, as of 1 January 2008 ("Best Practices"), available on [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl), being the official website of the Warsaw Stock Exchange dedicated to corporate governance of companies listed on the WSE Main Market and NewConnect.

The key objective of the adoption of the corporate governance rules as a standard of the Bank has been to establish transparent relations among all corporate bodies and entities involved in the Company's operation as well as to ensure that the Company and its enterprise are managed properly, with due diligence and loyalty with respect to all shareholders. The willingness to ensure transparency of the operation of Bank Handlowy w Warszawie S.A., including in particular the relations and processes among the Company's statutory bodies, led to the adoption by the Bank of the best practices as set forth in the Best Practices for WSE Listed Companies. The Bank continuously takes measures aimed at improving transparency in its organization, the division of powers and the functioning of its governing bodies and their mutual relations. These include the following:

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

## **2. Corporate governance rules set forth in the Best Practices for WSE Listed Companies which were not applied by the Bank in 2014**

In 2014, the Bank did not comply with the following rules and recommendations:

- a) rule II.3 (applicable to the Management Board) and rule III.9 (applicable to the Supervisory Board) in respect of the Supervisory Board's approval of material transactions / agreements with related parties entered into as part of ongoing operations, in particular those related to liquidity management;
- b) rule IV.10 (2) concerning bilateral communication in real time, under which shareholders may take the floor during the General Meeting from a location other than the venue of the General Meeting.
- c) rule I 12 ensuring the shareholders the ability to perform either in person or by proxy their voting rights during the General Meeting from a location other than the venue of the General Meeting with the use of electronic communication means.

Ad (a) The Bank did not apply rules II.3 and III.9 of the Best Practices only with respect to agreements with related parties entered into as part of ongoing operations, in particular those related to liquidity management. Considering the nature and the number of transactions entered into as part of ongoing operations, it is not possible from the operational perspective to obtain the Supervisory Board's approval for their conclusion. Other agreements with related parties fulfilled the criteria of the material agreement in the meaning of the Bank's Statute.

Ad (b) The Management Board of the Bank also decided that during the Ordinary General Meeting held in 2013 it would not apply rule IV.10 of the Best Practices concerning bilateral communication in real time, under which shareholders may take the floor during the General Meeting from a location other than the venue of the General Meeting. The said decision was taken on account of the risks of legal as well as organizational and technical nature related to providing shareholders not participating personally in the General Meeting with real-time bilateral communication with the use of electronic communication means, which may negatively impact the course of the General Meeting.

Ad (c) The Bank believes that voting by means of remote communication at general meetings of shareholders (recommendation I.12 of the Best Practices) may raise some concerns and generates greater risk of irregularities in the course of GM. The current technology does not guarantee the full safety of remote voting, which may result in the decisions of the general shareholders meeting being declared null and void. The Bank considered potential technical problems which may occur during such a meeting, including problems with identification of shareholders participating online, selecting proper means of communication, risk of not meeting technical requirements by a shareholder, unpredicted transmission delays for shareholders from different time zones, communication problems beyond the Bank's control, including Internet connection problems in shareholder's region.

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

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

The process of drawing up the financial statements is covered by the Bank's internal control system aimed at ensuring accuracy and fairness of the data shown in the Bank's financial statements. The internal control system includes identification and control of risks related to the process of drawing up the financial

statements, monitoring of the Bank's compliance with legal provisions and internal regulations in this respect, as well as internal audit.

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

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

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

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

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

#### **4. Significant shareholdings**

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

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

There are restrictions resulting from Article 25 of the Banking Act: an entity which intends to purchase or acquire, directly or indirectly, shares or rights attached to shares of a domestic bank in an amount that ensures reaching or exceeding the thresholds of 10%, 20%, one-third, 50% of the total number of votes at the General Meeting or of the share capital, respectively, is obliged to notify at each time the Polish Financial Supervision Authority of such intention to purchase or acquire. An entity which intends to become, directly or indirectly, a parent company of a domestic bank in a manner other than by purchasing or acquiring shares or rights attached to shares of a domestic bank in an amount that ensures a majority of the total number of votes at the General Meeting is obliged to notify at each time the Polish Financial

Supervision Authority of such intention. The Bank's Articles of Association do not provide for any other restrictions as regards the transfer of its shares.

## **5. Rules governing the appointment and dismissal of Members of the Management Board and their powers**

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

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

- 1) as of the date of the General Meeting which approves the Management Board's report on the activities of the Bank as well as the financial statements for the last full financial year of a Management Board member's term of office;
- 2) upon the death of a Management Board member;
- 3) as of the date of dismissal of a Management Board member;
- 4) as of the date of resignation submitted to the Chairman of the Supervisory Board in writing.

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

- 1) determines the strategy of the Company;
- 2) establishes and liquidates the Company's committees and determines their competences;
- 3) drafts the Regulations of the Management Board and submits them to the Supervisory Board for approval;
- 4) drafts regulations regarding the management of special funds created from the net profit and submits them to the Supervisory Board for approval;
- 5) determines dividend payment dates within the deadlines specified by the General Meeting;
- 6) appoints proxies, general attorneys and general attorneys with the right of substitution;
- 7) decides on matters specified in the Regulations of the Management Board;
- 8) resolves issues raised by the President, a Vice-President or a member of the Management Board;
- 9) takes independent decisions regarding acquisition and disposal of real properties, perpetual usufruct or interest in property;
- 10) adopts the Company's draft annual financial plan, accepts investment plans and reports on their implementation;
- 11) accepts reports on the activities of the Company as well as financial statements;
- 12) draws up motions regarding profit distribution or loss coverage methods;
- 13) approves the HR and credit policy as well as legal rules governing the Company's operation;
- 14) approves the principles governing the Company's capital management;
- 15) approves the employment structure;
- 16) determines the fundamental organizational structure of the Company, appoints and dismisses Sector Heads, appoints and dismisses Division Heads and determines the scope of their competence;
- 17) develops the plan of control measures undertaken in the Company and accepts reports on audits conducted;
- 18) resolves other issues subject to submission to the Supervisory Board or the General Meeting pursuant to the Articles of Association;
- 19) decides on contracting liabilities or managing assets whose total value with respect to one entity exceeds 5% of the Company's equity or grants authorizations to designated parties to take the



aforementioned decisions; however, with respect to issues for which the Company's Committees have responsibility, such decisions are made upon consultation with the competent Committee;

- 20) determines the organizational structure and the scope of responsibilities of the Audit Department, including mechanisms ensuring audit independence.

The Management Board is in charge of designing, implementing and ensuring proper functioning of the Company's management system. It develops, implements, approves and updates written strategies, procedures, plans and analyses, undertakes other measures in respect of the risk management, internal control and internal capital assessment system and reviews of the internal capital assessment and maintenance process. Members of the Management Board and heads of the organizational units specified in the Regulations of the Management Board are authorized to file motions to be considered by the Management Board with respect to matters within the competence of the aforementioned units.

The President of the Management Board:

- 1) manages the activities of the Management Board, including designation from among the Management Board members of a person performing the role of Deputy President in his/her absence, and determines the method of deputizing other Management Board members in their absence;
- 2) convenes and chairs meetings of the Management Board;
- 3) presents the position of the Management Board to the Company's governing bodies, state and local authorities as well as the general public;
- 4) files motions to the Supervisory Board regarding the appointment or dismissal of members of the Management Board as well as determination of their remuneration;
- 5) issues internal regulations governing the Company's operations and has the right to authorize the remaining members of the Management Board or other employees of the Company to issue such regulations;
- 6) decides on the use of internal audit results and notifies the audited unit of any decisions made with respect to the audit;
- 7) exercises other rights under the regulations adopted by the Supervisory Board.

The President of the Management Board has the right to assign to individual members of the Management Board as well as Division Heads particular responsibilities as specified above, except for those referred to in points (1) and (4).

## **6. Amendments to the Articles of Association**

The General Meeting of the Bank is authorized to introduce amendments to the Bank's Articles of Association. Any changes to the Articles of Associations must be entered in the court register. Pursuant to Article 34.2 of the Banking Act of 29 August 1997, any amendments to the Bank's Articles of Association require approval of the Polish Financial Supervision Authority if they pertain to:

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

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

### **7.1 General Meeting procedure**

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

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

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

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

Through the party in charge of opening the General Meeting, the Bank's Management Board always provides the Chairman of the General Meeting with instructions for performing such a function in a manner ensuring compliance with generally applicable laws, corporate governance rules, the Articles of

Association as well as internal regulations of the Bank. Members of the Bank's Management Board and Supervisory Board as well as the statutory auditor of the Bank should participate in the General Meeting if it discusses financial issues.

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

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

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

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

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

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

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

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

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

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

General Meetings may be attended by the media.

## **7.2 Fundamental powers of the General Meeting**

The General Meeting should be convened to:

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

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

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

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

- 1) supplementary capital created on an annual basis with allocations from profit in the amount of at least 8% of the profit generated in a given financial year until the capital amounts to at least one third of the share capital. The General Meeting has the right to adopt a resolution imposing the obligation to make further allocations;
- 2) reserve capital;
- 3) general risk fund;
- 4) dividend;
- 5) special purpose funds;
- 6) other purposes.

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

### **7.3 Shareholders' rights and their exercise methods**

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

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

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

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

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

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

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

- 1) could be detrimental to the Company, its related party or subsidiary, in particular through the disclosure of technical, trade or organizational secrets of the enterprise;
- 2) could expose a member of the Management Board to criminal, civil or administrative liability.

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

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

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

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

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

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

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

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

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

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

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

The Bank ensures adequate protection of the minority shareholders' rights, within the limits imposed by its corporate status and the associated primacy of the majority rule principle. In particular, in order to ensure equitable treatment of all shareholders, the Bank adheres, among others, to the following practices:

- The General Meetings of the Bank always take place in the Bank's registered office in Warsaw;
- Presence of representatives of the media at the General Meetings is allowed;
- In accordance with the Bank's practice, all important materials prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to the shareholders no later than 14 days before the date of the General Meeting, at the Bank's registered office and on the Bank's website;
- The General Meeting has stable Regulations setting forth detailed principles for conducting meetings and adoption of resolutions;

- Members of the Supervisory Board and the Management Board take part in the General Meeting in order to provide its participants with explanations and information about the Bank within the scope of their responsibilities;
  - The General Meeting participants objecting to a resolution are offered an opportunity for brief presentation of the rationale of their objection. Moreover, each General Meeting participant can submit written statements to the meeting minutes.
- 8. Composition of and changes to the Management Board and the Supervisory Board of the Bank, rules of procedure of the Bank's managing and supervisory bodies**

### 8.1 Management Board

The Management Board of the Bank is composed of five to nine members, including the President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company, as well as Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for a term of three years.

As 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
<b>Sławomir S. Sikora</b> <i>President of the Management Board</i>	<p>Sławomir S. Sikora was appointed President of the Management Board of Bank Handlowy w Warszawie S.A. in 2003. From 2005 to 2008 he was a member of Citigroup Management Committee in New York.</p> <p>From 2001 to 2003 he was the President of the Management Board of Bank Amerykański w Polsce S.A.</p> <p>From 1994 to 2001 he worked in Powszechny Bank Kredytowy S.A. as the Head of Corporate and Investment Banking. From 1989 to 1994 he held a number of high ranking positions in the Ministry of Finance (such as the Head of the Department of Banking and Financial Institutions).</p> <p>Sławomir S. Sikora graduated from the Warsaw School of Economics.</p> <p>Sławomir Sikora is Vice-President of the Management Board of Polish Confederation Lewiatan and a member of the Emerging Markets Advisory Council at the Institute of International Finance (IIF) in Washington.</p>
<b>Brendan Carney</b> <i>Vice-President of the Management Board</i>	<p>Mr Brendan Carney became Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 21 May 2012.</p> <p>Brendan Carney worked for Citi Belgium from March 2010, where he was Head of Consumer Banking. The area hired 700 employees, with a total balance sheet of \$8 billion, and annual revenues of \$300 million.</p> <p>In February 2011, he also took the position of Chief Country Officer for Belgium. In his new role, he was responsible for all Citi operations in Belgium, including Consumer and Institutional Banking.</p> <p>He began his career in Citi in 2002, in Portugal, when he was managing the consumer banking area. During his term, the area achieved a 40% increase in the value of assets, revenues and gross profit, with employee satisfaction level above 90%. In 2007 Portugal was named the best credit card area in EMEA.</p> <p>Brendan Carney was born and raised in Michigan, US. He is a graduate of Economics at the University of Michigan and Wharton School at the University of Pennsylvania.</p>
<b>Maciej Kropidłowski</b> <i>Vice-President of the Management Board</i>	<p>Maciej Kropidłowski became Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 19 March 2014.</p> <p>Mr Maciej Kropidłowski graduated the University of Łódź, the Faculty of Management.</p> <p>Since January 2014 he has been Head of Financial Markets Sub-Sector in Bank Handlowy w Warszawie S.A. In February 2014 he was appointed to the Supervisory Board of Dom Maklerski Banku Handlowego S.A. In Bank Handlowy w Warszawie S.A., he is responsible for Bank asset financing,</p>



Member of the Management Board	Professional experience
	<p>financial services in the monetary market, FX services, securities and derivatives trading.</p> <p>Mr Maciej Kropidłowski started his professional career in 1995 in Corporate Bank, Citibank (Poland) S.A. Four years later, he became Key Account in Global Customers Department in Citibank N.A. in Switzerland. In 2001, he returned to Poland and became Head of Treasury Sales in Bank Handlowy w Warszawie S.A. In this position, he was responsible for management of Treasury Product Sales and Structurisation Department.</p> <p>From 2008 EMEA Head of Treasury Sales in Citibank N.A. in London, managed sales of FX products to corporate customers. He was crucial in developing the best e-Commerce platform for corporate customers and the CRM global system for Global Markets.</p>
<p><b>Barbara Sobala</b> <i>Vice-President of the Management Board</i></p>	<p>Ms Barbara Sobala graduated from the Cracow University of Economics. More than 20 years of extensive experience in banking, in particular in the area of risk management and corporate restructuring.</p> <p>Has worked for Citi Handlowy since 2005, when she became Head of Restructuring. Head of Corporate Banking Risk since 2012. Chairwoman of the Risk and Capital Management Committee, Vice-Chairwoman of the Capital Investments Committee and member of the Asset and Liability Management Committee of the Bank.</p> <p>Before joining Bank Handlowy, Ms Barbara Sobala worked in Bank BPH for 13 years, among others as the Head of Restructuring and member of the Credit Committee of the Bank. On 15 October 2013 she was appointed Vice-President of the Management Board of the Bank. She is also Head of Risk Management.</p>
<p><b>Witold Zieliński</b> <i>Vice-President of the Management Board</i></p>	<p>Mr Witold Zieliński holds a master's degree and completed post-graduate studies in International Law at the University of Warsaw. He started his career in 1980 in Bank Handlowy w Warszawie S.A. in the Southern European Department in the Foreign Loans Division. In 1986-1990, he worked for the Polish Commercial Office in New York. In 1991 Witold Zieliński started to work in Citibank (Poland) S.A. In 1992-1995, he was a Member of the Management Board, then he worked for Citibank N.A. London Branch, where he was responsible for the sales of global products and customer risk assessment in Southern and Eastern European markets. In 1998, he set up a representative office of Citibank NA in Kiev and then established a fully licensed Citibank Ukraine, which he ran as President of the Management Board until the end of 2003. In 2004-2005, he was the President of the Management Board of Citibank Romania. Witold Zieliński was appointed Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 1 January 2006. He is also the Chief Financial Officer and Head of the Management and Support Sector.</p>
<p><b>Iwona Dudzińska</b> <i>Member of the Management Board</i></p>	<p>Ms Iwona Dudzińska holds an MA in Economics and is a senior executive with 15 years' experience in management of strategic projects and complex operation and technology processes. She has been with Citigroup since 1999, first as Senior Branch Operations Officer Citibank (Poland) S.A. responsible for management of documentary operations, local and foreign clearing, money market operations and the bank's administrative functions. She was also in charge of the Corporate Customers Department. In 2001-2004, she managed the Centralized Operations Division of the Corporate and Investment Bank. From April 2004 to July 2008, as the Managing Director, she was the Head of Operations and Technology of the Corporate and Investment Bank. As the Head of Operations and Technology Sub-Sector, she was responsible for all operation and technology activities in the Bank since July 2008. Iwona Dudzińska was appointed Member of the Management Board of Bank Handlowy w Warszawie S.A. on 18 September 2009 for a three-year term of office. She is also the Head of Operations and Technology Sub-Sector.</p>
<p><b>Czesław Piasek</b> <i>Member of the Management Board</i></p>	<p>Mr Czesław Piasek was appointed Member of the Management Board of Bank Handlowy w Warszawie S.A. on 20 May 2014.</p> <p>Mr Czesław Piasek graduated from the Faculty of Finance and Banking at the Warsaw School of Economics.</p> <p>Mr Czesław Piasek has been Head of Transactional Banking in Citi</p>

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

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

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

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

The President of the Management Board convenes and chairs meetings of the Management Board and may also determine fixed meeting dates.

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

The attendance of members of the Management Board at its meetings is obligatory. Absence must be excused. In addition to members of the Management Board, meetings may be attended by:

- 1) Division Heads;
- 2) Corporate Services Office Head or a designated person;
- 3) Head of Compliance Department;
- 4) Legal Division Head.

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

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

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

In justified cases, resolutions may be adopted by the Management Board in a circular procedure pursuant to a decision of the President of the Management Board or the Deputy President. A resolution may be adopted in a circular procedure provided that all members of the Management Board are notified of its adoption. A resolution adopted in a circular procedure constitutes an appendix to the minutes from the first meeting of the Management Board following its adoption.

Minutes are taken from Management Board meetings, which is a responsibility of the Corporate Services Office. Minutes of Management Board meetings should include:

- 1) the agenda;
- 2) the first and last names of attendees;
- 3) information on excused absence or reasons for the absence of members of the Management Board from a meeting;
- 4) texts of resolutions adopted;

- 5) the number of votes cast for a particular resolution and dissenting opinions;
- 6) the name of the entity or organizational unit or the first and last name of the person in charge of implementation of the resolution; and
- 7) resolution implementation deadline.

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

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

- 1) upon preparation, but not later than 30 (thirty) days from each month-end, monthly and periodical (covering the period from the beginning of the year to the end of the preceding month) financial information, compared with the budget adopted in the annual plan and in relation to the previous year;
- 2) immediately upon preparation, but not later than 120 (one hundred and twenty) days after each financial year-end, annual individual and consolidated financial statements drawn up in accordance with the International Financial Reporting Standards and audited by the Company's statutory auditor;
- 3) immediately upon preparation but in each case not later than by the end of each year, the draft annual plan for the following financial year; and
- 4) immediately, other available financial data related to the Company's operations and financial position as well as the operations and the financial position of the Company's subsidiaries, which may be reasonably requested by a member of the Supervisory Board.

## 8.2 Supervisory Board

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

As 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
<b>Andrzej Olechowski</b> <i>Chairman of the Supervisory Board</i>	Mr Andrzej Olechowski holds a Ph.D. in Economics. He is a member of the Board of Directors of Euronet and of Advisory Committees of Citigroup Europe and Macquarie European Infrastructure Fund. Previously, he was the Minister of Finance and the Minister of Foreign Affairs of the Republic of Poland. He was also a candidate for the office of the President of the Republic of Poland. He is a member of a number of non-governmental organizations, among others, the Chairman of the Polish Group of the Trilateral Commission. He is the author of numerous publications on international trade and foreign policy. Dr. Olechowski is a Professor at the Vistula University. In the years 1991-1996 and 1998-2000 Andrzej Olechowski served as Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003. He serves as Chairman of the Supervisory Board since 23 July 2012.
<b>Shirish Apte</b> <i>Vice-Chairman of the Supervisory Board</i>	Until recently, Mr Shirish Apte was Co-Chairman, Citi Asia Pacific Banking. From 2009 to 2011 he was CEO, Citi Asia Pacific, responsible for Southern Asia, comprising Australia, New Zealand, India and ASEAN states. He was a member of the Citigroup Executive Committee and Citi Operational Committee. Mr Shirish Apte has been working for Citi for more than 32 years. He was CEEMEA CEO, and prior to that, the Country Manager responsible for Citi operations in Poland, and Vice-President of Bank Handlowy w Warszawie S.A. Mr. Apte moved from India to London in 1993 as CEEMEA Senior Risk Manager before becoming Head of Corporate Finance and Investment Bank for the CEEMEA region, which includes India. Shirish Apte is a Chartered Accountant from the Institute of Chartered

Member of the Supervisory Board	Professional experience
	<p>Accountants in England and Wales, a BA in commerce and an MBA from London Business School.</p> <p>Mr Shirish Apte has been the Vice-Chairman of the Supervisory Board of the Bank since 25 June 2003.</p>
<p><b>Adnan Omar Ahmed</b> <i>Member of the Supervisory Board</i></p>	<p>Adnan Omar Ahmed is a Managing Director, Head of Human Resources for Europe, Middle East and Africa (EMEA), and Global Head of Citi Shared Services in Citi Employee Services. Adnan Ahmed joined Citi in July 2010 and is based in London.</p> <p>Prior to joining Citi, he spent a seventeen year career at Morgan Stanley. After the first two years in New York, Adnan spent the rest of his career in Asia, holding various senior positions including Head of Human Resources / Chief Talent Officer, and Chief Administrative Officer. In the latter role, he had responsibility for the development and execution of cross-divisional strategy and direct accountability for regional infrastructure and support functions, including Finance, Human Resources, Information Technology, Operations, Shared Services, Marketing and Communications, Corporate Services, and Operational Risk. His experiences include Start-Ups, Joint Ventures (China and India) and advising customers, including Corporate and Sovereign Wealth Funds, on their infrastructure, platform, and growth strategies.</p> <p>Before joining Morgan Stanley, Adnan Ahmed worked at Mitsubishi UFJ Financial group in New York in Corporate Finance, Operations, Credit and Human Resources. Adnan has taught international management courses and lectured at educational institutions including INSEAD and the Hong Kong University. He has also been active in various non-profit organizations, including as a Board Member of the American Chamber of Commerce in Hong Kong, where he co-led a key initiative on Board Governance, and the English Schools Foundation (Hong Kong). He currently serves as a Board member of Temasek Management Services, a wholly owned subsidiary of Temasek Holdings.</p> <p>Adnan received his MBA degree from the A.B. Freeman School of Business at Tulane University (1990), and holds degrees in BSc Computer Science (Magna Cum Laude, 1988) and BA International Relations (Cum Laude, 1988), also from Tulane. He has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 21 June 2012.</p>
<p><b>Igor Chalupec</b> <i>Member of the Supervisory Board</i></p>	<p>Igor Chalupec is Executive Partner and President of the Management Board of ICENTIS Sp. z o.o. Corporate Solutions S. K-A and ICENTIS Capital Sp. z o.o. Graduate of Faculty of Foreign Trade at the Warsaw School of Economics (formerly SGPiS) and of the University of Warsaw's Faculty of Law and Administration. Licensed broker of securities. In 1991-1995, he was a founder and then manager of Centralne Biuro Maklerskie Banku Pekao SA, currently CDM Pekao SA. In 1995-2000, a Member and then, until 2003, Vice-President of the Management Board of Pekao SA (UniCredit Group) responsible for corporate and investment banking, treasury and custody services as well as asset management. In 2003-2004, Under-Secretary of State in the Ministry of Finance responsible for European affairs, financial markets and financial information. Vice-Chairperson of the Commission for Insurance and Bank Supervision (2003-2004). Author of the Warsaw City 2010 Agenda, the government's capital market development strategy. From October 2004 to January 2007, President of the Management Board and CEO of Polski Koncern Naftowy ORLEN, the biggest Polish company and, after the acquisition of the Lithuanian refinery Mazeikių Nafta in 2006, the biggest fuel company in Central Europe. Member of many Supervisory Boards, including the Warsaw Stock Exchange (1995-2003), Unipetrol, a.s. (2005-2007). Currently a member of the Supervisory Boards of PZU Życie SA and Budimex SA. Member of the Program Council of the Economic Forum in Krynica. Winner of many rewards and distinctions, including the Lesław A. Paga Award for setting modern standards in the Polish economy, the Hermes Award for outstanding contribution to the reconstruction of the Polish capital market and the Vector Award made by the Confederation of Polish Employers.</p> <p>Igor Chalupec has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 18 June 2009.</p>
<p><b>Mirosław Gryszka</b> <i>Member of the Supervisory Board</i></p>	<p>Mirosław Gryszka is a graduate of the Gdańsk Technical University. Since 1990, he has held managerial positions in Asea Brown Boveri Group and, in 1997-2013, he was the President of ABB Sp. z o.o. and Country Manager of</p>

Member of the Supervisory Board	Professional experience
<b>Frank Mannion</b> <i>Member of the Supervisory Board</i>	<p>ABB Group in Poland. Since September 2013 Baltic States, Russia, Central Asia and Caucasus Subregional Director in the ABB Group.</p> <p>Mirosław Gryszka has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 30 June 2000.</p> <p>Mr. Frank Mannion is the Citi Chief Financial Officer for Europe, the Middle East and Africa (EMEA). He assumed this position in January 2011 and has been responsible for a group of more than 1,000 employees in the entire Region.</p> <p>Mr. Mannion began his career in Ireland before moving to join PricewaterhouseCoopers in London.</p> <p>Mr. Mannion joined Citi in the UK in 1989 in the Planning and Analysis team. He has held various Finance roles, including Technology Finance Manager and Head of CMB EMEA Product Control. He served as CMB EMEA Regional Controller, responsible for Product Control, Controllers and Regulatory Reporting and subsequently in March 2008 he was appointed the Citi Regional Franchise Controller for EMEA with responsibility for over 800 people covering all the businesses.</p> <p>Mr. Frank Mannion has a Commerce Degree from the National University of Ireland - Galway and is a Chartered Accountant. He lives in London with his family.</p> <p>Frank Mannion has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 28 June 2010.</p>
<b>Dariusz Mioduski</b> <i>Member of the Supervisory Board</i>	<p>An investor and manager with extensive transactional, legal and regulatory experience, particularly in the areas of privatizations, mergers, acquisitions and project finance in power, natural resources and infrastructural sectors.</p> <p>Currently, Dariusz Mioduski is the CEO of Radwan Investments, his family investment holding company. Majority shareholder and Chairman of the Supervisory Board of Legia Warsaw football club. From 2007 to 2013 Chief Executive Officer and President of the Management Board of Kulczyk Investments SA., the largest private capital group in Poland, which mainly invests in the energy, raw materials and infrastructural sectors. From 1997 to 2007 Dariusz Mioduski was a partner in CMS Cameron McKenna, in charge of practice related to energy and infrastructure in Poland. From 1991 to 1997 a lawyer in NY and Warsaw office of White &amp; Case LLP, and Vinson &amp; Elkins LLP in Houston.</p> <p>Dariusz Mioduski is Vice-President of the Polish Business Roundtable, Vice-President of the Harvard Club of Poland and board member of the Harvard Law School Dean's Advisory.</p> <p>Mr. Mioduski is also a member of the Supervisory Boards of several public and non-public companies, such as Serinus Energy Inc.</p> <p>Dariusz Mioduski holds a Ph.D. in law from the Harvard Law School (1990) and a degree from University of St. Thomas in Houston (Bachelor of Arts, 1987).</p> <p>Dariusz Mioduski has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 12 September 2011.</p>
<b>Anna Rulkiewicz</b> <i>Member of the Supervisory Board</i>	<p>Ms Anna Rulkiewicz graduated from the Faculty of Humanities of the Nicolaus Copernicus University in Toruń. At the same time she graduated psychology at the University of Hamburg and completed post-graduate studies at the Polish-French Institute of Insurance of the French Institute. She completed a series of training in management, sales, communication, marketing (including 3-year management studies) as part of LIMRA, a certified insurance industry programme, "Marketing Strategies for Executive Advancement" (LIMRA Executive Development Group). She also completed a number of courses in management, sales, finance, marketing and banking.</p> <p>Since 2002 Ms Anna Rulkiewicz has worked for LUX MED Sp. z o.o., initially as Member of the Management Board, Director of Sales and Marketing. Since 2007 she has been President of the LUX MED Group. Since the end of 2011 she has been Managing Director of LMG Försäkrings AB, a branch of which operates in Poland as LUX MED Ubezpieczenia. President of the Management Board of the Association of Private Medicine Employers.</p> <p>From 2001 to 2002 she managed Sales and Marketing in Credit Suisse Life &amp; Pensions Investment Fund and Company and Winterthur Insurance Company, where she supervised departments of internal sales, external sales, group insurance, marketing and communications. From 1998 to 2001</p>



Member of the Supervisory Board	Professional experience
<b>Stanisław Sołtysiński</b> <i>Member of the Supervisory Board</i>	<p>she worked for Zurich Towarzystwo Ubezpieczeń na Życie S.A. and Zurich Powszechne Towarzystwo Emerytalne S.A. As the Group Insurance and Training Director, she was responsible for the group insurance sector, including creation of services, recruitment system and training management. As the Director of Corporate Customers and Member of the Management Board of Zurich Towarzystwo Ubezpieczeń na Życie S.A. she was responsible for small business customers and corporate customers. From 1995 to 1998 she worked in Commercial Union Towarzystwo Ubezpieczeń na Życie S.A, where her last role was development of sales of group and individual insurance as part of bancassurance.</p> <p>Has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 June 2013.</p> <p>Mr Stanisław Sołtysiński, Professor of Law. Prof. Sołtysiński is engaged in scientific activities as a law professor at the Adam Mickiewicz University in Poznań (where he also held the position of Dean of the Faculty of Law and Administration) and a recurring visiting professor at the University of Pennsylvania Law School in Philadelphia, the College of Europe in Bruges, the Max Planck Institute in Munich and the International Law Academy in the Hague. He is a member of many scientific associations and organizations. Among others, he is a correspondent member of the Polish Academy of Learning and a member of the Board of Directors of UNIDROIT. He is a co-author of the Commercial Companies Code. Professor Sołtysiński is also in private law practice as a partner in the law firm Sołtysiński, Kawecki i Szlęzak - Legal Advisors.</p> <p>Professor Sołtysiński was appointed to the Supervisory Board of Bank Handlowy w Warszawie S.A. on 26 March 1997 and was the Chairman of the Supervisory Board from 30 June 2000 to 20 June 2012. He is a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.</p>
<b>Zdenek Turek</b> <i>Member of the Supervisory Board</i>	<p>Mr Zdenek Turek is now responsible for all Citi operations in Western Europe (19 countries), and is the Corporate Bank EMEA Head. He works in London.</p> <p>Citi provides a broad range of corporate banking, investment banking retail and transactional banking, as well as services covering securities and markets in the entire Western Europe Region, one of Citi's largest markets globally.</p> <p>Until recently Mr Zdenek Turek was Citi CEE CEO and Country Corporate Officer in Russia and worked in Moscow. Citi operations in this region covered 8 CEE countries. In Russia, Citi is one of the largest and best capitalised banks in the country, with 2,000 corporate customers and more than one million retail customers, served by 4,000 employees in more than 50 branches in 12 cities.</p> <p>Prior to that role, between 2005 and 2008, Zdenek Turek was Citi Country Officer for Citibank South Africa and Division head for Africa, a region with 16 countries of Citi's presence.</p> <p>From 2002 to 2005, Zdenek Turek was the Citi Country Manager for Hungary, also managing the Central European cluster of 5 countries (Hungary, Czech Republic, Romania, Slovakia and Bulgaria).</p> <p>Zdenek Turek joined Citi in 1991 in Prague where he held a number of Corporate Bank and Corporate Finance management roles before moving to Citi Romania in 1998 as Head of Citi in Romania.</p> <p>Prior to joining Citi, Zdenek Turek was a member of the Foreign Exchange Department of the Czechoslovak Central Bank focusing mainly on Export/Import and Business sectors (1986-1990). He then joined A.I.C., an Austrian Management Consulting firm as Deputy Head of Representative Office, Prague responsible for corporate advisory focusing on restructuring and financial recovery of industrial companies.</p> <p>Zdenek Turek was born in Kolin, Czech Republic. He graduated with an MA in Finance and Banking from the University of Economics, Prague in 1986, an Advanced Management Development Program from Wharton University in 1997 and an MBA from INSEAD in 2010.</p> <p>Zdenek Turek is a member of the American Chamber of Commerce Board in Russia.</p> <p>He has been a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.</p>



Member of the Supervisory Board	Professional experience
<b>Stephen R. Volk</b> <i>Member of the Supervisory Board</i>	<p>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.</p> <p>Before joining Citigroup in September 2004, Mr. Volk held the function of Chairman of Credit Suisse First Boston, where he worked together with the CEO on the company strategic management and customer key matters. His professional experience with Credit Suisse First Boston began in August 2001 and before that he worked for Shearman &amp; Sterling, a New York-based law firm, where he had been Senior Partner since 1991. During his career in Shearman &amp; Sterling, Mr. Volk acted as legal counsel to a number of corporations including Citicorp. The firm provided advisory services for Citicorp within a wide range of fields including restructuring of the Citigroup debt portfolio in Latin America. Among some important transactions carried out with substantial participation of Mr. Volk were the following: mergers of Glaxo and SmithKlein, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman &amp; Sterling in 1960 after graduating from Dartmouth College and Harvard Law School and became a Partner of this company in 1968.</p> <p>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.</p> <p>Stephen R. Volk has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.</p>
<b>Anil Wadhvani</b> <i>Member of the Supervisory Board</i>	<p>Mr Anil Wadhvani became EMEA Head of Consumer Bank and Corporate Bank in October 2013.</p> <p>Before that, from February 2012, he was Head of Retail Cards and Credit Area in Asia and Pacific, responsible for the entire range of Citi and partner (co-branded) payment products offered by Citi in the region. In August 2012 he became additionally responsible for Retail Banking in South-East Asia, with countries such as Indonesia, Philippines, Singapore, IPB/NRI, Thailand, Vietnam and Guam.</p> <p>Mr Wadhvani became Head of Retail Markets in Singapore in September 2008, and in May 2010 he became additionally responsible for Citibanking in the region. His retail activities changed competitive environment in Singapore, where he supervised distribution and development, increasing Citi recognition and confirming Citi leading market position. As the Citibank Singapore Limited CEO, he cooperated with the Supervisory Board to ensure proper bank management in the changing regulatory environment. As part of his regional duties, Mr Wadhvani cooperated with individual countries to create the Citibanking segment, by defining the customer relation model, creating a convincing offering and increasing segment profitability.</p> <p>Mr Anil Wadhvani has worked for Citi since 1992. Since then, he held various prominent positions in Credit Card and Retail Banking and managed Retail Banking in India. He developed the Citibank Suvudha initiative, which works in various regions and India and is seen as a unique model of customer acquisition and product delivery, and a model for many "Bank-At-Work" Citi initiatives in the world.</p> <p>Mr Wadhvani holds a B.A. in commerce and M.A. in management from Mumbai University.</p> <p>Has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 24 June 2014.</p>

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

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

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

- 1) appointment and dismissal of the President of the Management Board of the Company in a secret ballot;

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

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

Members of the Supervisory Board perform their duties in person. The Supervisory Board performs its duties collectively; each member of the Supervisory Board has the right to be provided by the Management Board with information required for due performance of their duties. Meetings of the Supervisory Board are held at least once a quarter. Such meetings are convened by Chairman of the Supervisory Board and, in his/her absence, by one of Vice-Chairmen of the Supervisory Board on their own initiative, upon the motion of a member of the Supervisory Board or upon the motion of the Management Board of the Company. The Chairman of the Supervisory Board may determine fixed dates

of the Supervisory Board's meetings. Notices convening such meetings, including the agenda and materials to be debated upon, are distributed by the Secretary of the Supervisory Board to members of the Supervisory Board at least 7 (seven) days prior to the date of the meeting.

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

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

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

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

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

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

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

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

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

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

Members of the Management Board of the Company attend meetings of the Supervisory Board, except for meetings concerning directly the Management Board. Upon the motion of the Chairman of the Supervisory Board or upon the motion of the Management Board of the Company, meetings may be attended by the Company's employees or third parties competent with regard to a particular matter. The Head of the Audit Department may participate in meetings of the Supervisory Board at which issues related to the Company's internal control are considered. In specially justified circumstances, the Chairman of the

Supervisory Board may decide to convene a meeting without the participation of parties other than members of the Supervisory Board, irrespective of any previous regulations providing otherwise.

### Supervisory Board Committees

Standing Committees of the Supervisory Board include:

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

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

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

#### Audit Committee

The Audit Committee is composed of:

- 1) Mirosław Gryszka – Chairman of the Committee,
- 2) Frank Mannion – Vice-Chairman of the Committee,
- 3) Shirish Apte - Member of the Committee,
- 4) Igor Chalupiec - Member of the Committee,
- 5) Anna Rulkiewicz – Member of the Committee,

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

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

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

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

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

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

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

At least once every year, the Audit Committee meets:

- 1) with the Head of the Audit Department, without the participation of the management;

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

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

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

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

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

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

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

Upon consultation with the Vice-Chairman of the Committee, the Chairman may decide on considering a matter by circular procedure.

### **Remuneration Committee**

The Remuneration Committee is composed of:

- 1) Andrzej Olechowski – Chairman of the Committee,
- 2) Adnan Omar Ahmed – Vice-Chairman of the Committee,
- 3) Shirish Apte – Member of the Committee,
- 4) Stanisław Sołtysiński – Member of the Committee.

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

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

The powers and responsibilities of the Remuneration Committee include:

- 1) evaluating the remuneration paid to members of the Company's Management Board against market criteria;
- 2) evaluating the remuneration paid to members of the Company's Management Board with respect to the scope of duties of members of the Company's Management Board and their performance;
- 3) providing the Supervisory Board with recommendations as to the amount of remuneration paid to individual members of the Company's Management Board each time prior to its determination or modification;
- 4) performing a general assessment of the correctness of the remuneration policy adopted by the Company with respect to its executives not being members of the Management Board;

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

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

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

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

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

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

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

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

### **Risk and Capital Committee**

The Risk and Capital Committee is composed of:

- 1) Zdenek Turek – Chairman of the Committee,
- 2) Igor Chalupec – Vice-Chairman of the Committee
- 3) Frank Mannion – Member of the Committee
- 4) Dariusz Mioduski – Member of the Committee,
- 5) Andrzej Olechowski – Member of the Committee,
- 6) Stephen R. Volk – Member of the Committee,
- 7) Anil Wadhwani – Member of the Committee.

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

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

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



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

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

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

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

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

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

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

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

Minutes are taken from the Committee's meetings.

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

Dom Maklerski Banku Handlowego S.A. (DMBH) and Handlowy-Leasing Spółka z o.o. (HL) are not public companies and therefore are not obliged to comply with the "Best Practices of WSE Listed Companies" and submit declarations in this respect; however, considering the significant role played by these entities in the capital group, the following circumstances should be mentioned:

DMBH is a member of the Chamber of Brokerage Houses; as a member of the Chamber it is obliged to comply with the Code of Good Practice of Brokerage Houses, developed by the Chamber of Brokerage Houses. This Code does not regulate the corporate governance issue but concerns mainly the rules for protection of trade secret, relationships with customers and conduct of the brokerage house's employees, including the conduct in relations with other brokerage houses. DMBH is an entity regulated by the Act on Trading in Financial Instruments and therefore it adheres not only to the provisions of the Code of Commercial Companies but also to certain components of the corporate governance, arising from the provisions of this Act and executive regulations – e.g. pursuant to article 103 of the above mentioned Act the Management Board should be composed of at least 2 persons with higher education, at least 3 years of experience in financial institutions and good reputation regarding the performed functions. DMBH should notify the Polish Financial Supervision Authority of any changes to the composition of the Management Board. Additionally, DMBH has reporting obligations towards The Polish Financial Supervision Authority (including reports on changes to the composition of the Management Board and on the content of certain resolutions adopted by the General Meeting). The Act on Trading in Financial Instruments also regulates the issues concerning the acquisition of shares of a brokerage house. It provides that the head office of a brokerage house should be in the territory of Poland.

Handlowy-Leasing Spółka z o.o. (HL) is a company operating in the leasing industry. Leasing companies organized in the Polish Leasing Association has not developed Good Practices for Leasing Companies yet.

HL operates under the Code of Commercial Companies. Despite the absence of such a requirement in the Code, a supervisory body – in the form of the Supervisory Board – has been established in HL, to exercise continuing supervision over the operations of the company.

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

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

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

PLN'000	Salaries, awards and short-term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	1,990	310	2,928
Brendan Carney	1,973	249	590
Maciej Kropidłowski <sup>(1)</sup>	1,094	6	-
Barbara Sobala	898	76	210
Witold Zieliński	1,090	109	544
Iwona Dudzińska	952	112	664
Czesław Piasek <sup>(2)</sup>	626	61	265
Byli członkowie Zarządu:			
Misbah Ur-Rahman-Shah <sup>(3)</sup>	2,183	180	4,208
Robert Daniel Massey JR <sup>(4)</sup>	-	136	500
Sonia Wędrychowicz-Horbatowska <sup>(5)</sup>	-	-	367
	<b>10,806</b>	<b>1,239</b>	<b>10,276</b>

(1) in employment since 19 March 2014

(2) in employment since 20 May 2014

(3) in employment to 18 March 2014

(4) in employment to 19 June 2013

(5) in employment to 13 May 2012

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Management Board in 2013:

PLN'000	Salaries, awards and short-term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	2,414	292	2187
Brendan Carney	1,664	256	186
Barbara Sobala <sup>(1)</sup>	169	15	-
Misbah Ur-Rahman-Shah	3,102	354	1,961
Witold Zieliński	1,090	113	594
Iwona Dudzińska	416	110	437
Former members of the Management Board:			
Robert Daniel Massey JR <sup>(2)</sup>	1,043	84	388
Sonia Wędrychowicz-Horbatowska <sup>(3)</sup>	-	-	171
	<b>9,898</b>	<b>1,224</b>	<b>5,924</b>

(1) in employment since 15 October 2013

(2) in employment until 19 June 2013

(3) in employment until 13 May 2012

"Base salaries and awards" include gross base salary well as awards paid 2014 and 2013.

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

“Capital assets granted” include Citigroup shares granted in the previous years and distributed in 2014 and 2013 and paid management options and long and short terms in form of phantom stocks awards.

The total amount of salaries, awards and benefits paid to the current and former members of the Bank’s Supervisory Board in respect of the years 2014 and 2013:

PLN'000	2014	2013
Andrzej Olechowski	338	228
Igor Chalupec	242	185
Mirosław Gryszka	202	168
Dariusz Mioduski	146	120
Stanisław Sołtysiński	164	30
Anna Rulkiewicz	189	168
<i>Former members of the Supervisory Board:</i>		
Krzysztof L. Opolski	-	70
	<b>1,281</b>	<b>969</b>

Remuneration paid and payable in respect of the years 2014 to the persons managing subsidiaries of the Bank amounted to PLN 5,812 thousand( In 2013: PLN 5,834 thousand)

The persons supervising subsidiaries of the Bank did not receive any remuneration in either 2014 or 2013.

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

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

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

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2013 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
<b>Management Board</b>				
Slawomir S. Sikora	-	-	16,912	509
Brendan Carney	-	-	8,248	248
Barbara Sobala	-	-	206	6
Witold Zieliński	-	-	3,768	113
Iwona Dudzińska	600	2,400	1,581	48
<b>Supervisory Board</b>				
Andrzej Olechowski	1,200	4,800	-	-
Shirish Apte	-	-	143,866	4,333
Adnan Omar Ahmed	-	-	6,576	198
Marc Luet	-	-	15,000	452
Frank Mannion	-	-	20,902	630
Zdenek Turek	-	-	24,457	737
Stephen R. Volk	-	-	169,339	5,100

As at 31 December 2014 and 31 December 2013, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

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

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

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

### 4. Management policy

The management policy of the Bank did not change in 2014. The policy is described in a Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

## XII. Agreements concluded with the registered audit company

On 19 March 2014 the Supervisory Board of the Bank appointed the auditor: PricewaterhouseCoopers Sp. z o.o. having its registered office in Warsaw at 14, Al. Armii Ludowej St., registered audit company No. 144, to conduct an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for 2013. PricewaterhouseCoopers Sp. z o.o. was selected in compliance with the applicable laws and auditing standards.

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

The auditor's net fees under the agreements (paid or payable) for the years 2014 and 2013 are presented in the table below:

<b>For the year</b>	<b>2014</b>	<b>2013</b>
<i>PLN'000</i>		
Bank (the parent company) audit fees (1)	369	410
Bank (the parent company) review fees (2)	153	170
Subsidiary companies audit fees (3)	230	255
Other assurance fees (4)	161	165
	<b>913</b>	<b>1,000</b>

- (1) The audit fees include fees paid or payable for the audit of the annual stand-alone financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2014 signed on 6 May 2014).
- (2) The review fees include fees paid or payable for the review of the semi-annual stand-alone financial statements of the Bank and the semi-annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2014 signed on 6 May 2014).
- (3) The audit fees include fees paid or payable for the audit of the financial statements of the Bank's subsidiaries.
- (4) The fees for other assurance services include all other fees paid to the auditor. These fees include assurance services related to the audit and review of the financial statements not mentioned in points (1) , (2) and (3) above.

### **XIII. Statement of the Bank's Management Board**

#### **Accuracy and fairness of the statements presented**

To the best knowledge of the Bank's Management Board composed of: Mr. Sławomir S. Sikora, President of the Management Board; Mr. Brendan Carney, Vice-President of the Management Board; Mr. Maciej Kropidłowski, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Mr. Witold Zieliński, Vice-President of the Management Board; Ms. Iwona Dudzińska, Member of the Management Board and Mr. Czesław Pasek, Member of the Management Board the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2014 were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of the assets and the financial position as well as the financial profit or loss of the Bank. The Annual Report on the Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2014 contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main risks) of the Group in 2014.

#### **Selection of the auditor authorized to audit the financial statements**

The entity authorized to audit financial statements PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością has audited the Annual Consolidated Financial Statements of the Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2014 and was selected in compliance with legal regulations. PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością and the registered auditors auditing the financial statements met the conditions necessary for issuing an impartial and independent auditor's opinion on the audited financial statements consistently with the applicable legal regulations and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws of 2014 item 133) is included in the Annual Consolidated Financial Statements of the Capital Group of the Bank.

## Signatures of Management Board Members

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