citi handlowy

REPORT ON ACTIVITIES OF BANK HANDLOWY W WARSZAWIE S.A. AND THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. IN 2017

MARCH 2018

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

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I. Introduction

1. Description of activities of the Bank Handlowy w Warszawie S.A.

Bank Handlowy w Warszawie S.A. is a universal lending and deposit bank, which offers institutional and investment banking and consumer banking services as well as providing brokerage services.

In the institutional client segment, Citi Handlowy focuses on maintaining its leading position among the banks which service international corporations and the largest domestic companies. Enterprises from the SME sector are another group of clients that are important to the Group. Focusing on acquiring new clients while actively expanding relations with existing clients in selected sectors as well as providing support to clients planning international expansion (the Emerging Market Champions initiative) are keys to further building the Group's market position. The goal of the Group is to be the Strategic Partner for Polish companies and to actively support the expansion of Poland's industry. This is clear from the range of products offered by the Bank in which foreign exchange transactions and products related to trade finance and guarantees occupy an important place. Additionally, the Bank strives to maintain its status as one of the safest places for institutional clients to deposit their savings, providing many useful modern solutions related to operating accounts and the day-to-day management of corporate finances.

The Bank's stable capital position as well as its outstanding network of international contacts are also appreciated by consumers. The Bank uses this competitive advantage to strengthen its leading position in the affluent banking segment. To this end, the Bank continues to develop products for Citigold clients and its unique offering launched at the end of 2015 for the most affluent clients – Citigold Private Client. In the consumer segment, the Bank focuses on investment products and its unique ways of rewarding those clients who decide to use the Bank's online wealth management products. The Bank's international connections enable it to expand the range of products offered to consumers by providing them with a unique global banking experience.

The Bank also stresses the importance of other groups of consumers, and especially so-called aspiring clients for whom the Bank is developing the special Citi Priority range of products. Citi Handlowy enhances the package solutions offered to this segment, tightening the clients' deposit relations with the Bank and at the same time addressing their need for loans.

Moreover, Citi Handlowy is the unquestioned leader of the credit card market, since it offers products from the global Citi product range, which are accepted all over the world and offer exceptional value for the client, e.g. in the form of loyalty programs. The Bank's objective will be also to increase the market share of unsecured loan products by meeting the credit needs of the growing number of clients with a competitive offering of cash loans or hire purchase products as well as innovative, fast processes.

The Bank's brokerage house (Dom Maklerski Banku Handlowego S.A.) is among the most active participants of the Polish capital market and a leading player in terms of share in Warsaw Stock Exchange turnover.

2. History of the Bank Handlowy w Warszawie S.A.

Bank Handlowy w Warszawie S.A. was founded in 1870 and it is the oldest commercial bank in Poland and also one of the oldest continuously operating banks in Europe. During the more 147 years of its existence, it has become a household brand. Since 2001, Bank Handlowy has been part of Citigroup, which is a global financial institution, and it has operated in Poland under the Citi Handlowy brand.

Today, Bank Handlowy w Warszawie S.A. is one of the largest financial institutions in Poland, operating as City Handlowy and offering a varied range of modern corporate, investment and retail banking products and services. Being a member of Citi, which is a leading global financial institution, Bank Handlowy is able to offer its clients access to financial services in over 100 countries.

Citigroup is a leading global financial services company. It serves approximately 200 million consumers as well as corporate, government and institutional clients in more than 100 countries. It provides a broad range of financial products and services such as commercial and investment banking, consumer banking, lending and insurance as well as securities market and asset management services. More information is available from: www.citigroup.com

Citi Handlowy's history:

1870 – Bank Handlowy w Warszawie S.A. was founded by a group of investors headed by Leopold Kronenberg. It is the oldest commercial bank in Poland and one of the oldest continuously operating banks in Europe.

1914 – Before World War I, Bank Handlowy w Warszawie S.A. was the largest private bank in Polish lands and one of the few which provided financial services to companies which traded with Russia and Western Europe. Its activity continued uninterrupted during both World Wars.

1945 – After 1945, Bank Handlowy w Warszawie S.A. became the main Polish foreign correspondent bank, and from 1964 it held the official monopoly on Polish foreign trade transactions. As a result, the largest Polish correspondent bank network was built – a branch in London opened and foreign representative offices operated in New York, Moscow, Belgrade, Rome and Berlin, with additional offices in Vienna, Luxembourg and Frankfurt.

1989 – The Bank gained the opportunity to expand its operations in the area of comprehensive banking services. The rapid expansion of the branch network and the development of new financial services areas allowed it to significantly increase the volume of its operations both in Poland and abroad.

1991 – Citibank (Poland) S.A. started operating in Poland

1997 – After almost 60 years, Bank Handlowy w Warszawie S.A. returned to the Warsaw Stock Exchange.

2001 – Merger of Bank Handlowy w Warszawie S.A. with Citibank (Poland) S.A.

2007 – Bank Handlowy w Warszawie S.A. adopted the new Citi Handlowy logo.

2009 – Citi Handlowy was included in the "RESPECT Index" as member of the elite group of 16 most socially responsible companies listed on the Warsaw Stock Exchange. The Bank received a high grade awarded to companies which observe the highest business standards.

2013 – Transformation of the Consumer Bank distribution system into the SMART Bank Ecosystem

2016–2018 – The implementation of the current Strategy of Bank Handlowy w Warszawie S.A.

3. Major developments in 2017

2017 was a year when income from client activities grew due to the growing volume of transactions with clients and the Group's focus on strategic areas, supported by the improving macroeconomic situation in Poland and globally as well as by the positive sentiment prevailing in the financial markets. This was reflected in the following achievements and events:

- An **increase in income from client activities** by 8% YoY, supported by growing **consumer lending** (+6% YoY) and **institutional lending** (+5% YoY) volumes.
- The main factor driving **growth** was **net interest income** on client activities, which grew by 12% YoY, translating into an **increase in interest margin** on earning assets to 2.9%.
- Consistent **cost discipline** despite making investments in advanced technologies and marketing to improve brand awareness.
- Continued development and promotion of **electronic channels** among consumers:
  - **The launch of the new version of the Citibank Online platform**. The platform is based on responsive technology, i.e. it adapts to the device used by the client and includes a number of functionalities such as the management of credit card and hire purchase products; The new Investment Panel makes it possible to monitor the current status of the client's investment portfolio and its history and also enables access to key functions related to saving and investing; the documentation management module makes it possible to send correspondence, approve agreements and download certificates from home;
  - **The acquisition of the largest number of new credit card clients** through online campaigns. The number of cards sold increased by 20% YoY and accounted for 40% of total sales at the Bank;
  - **Digital users account for almost 73% of all clients who executed transactions**, which translates to an increase of almost 1 p.p. compared to 2016.
- Leader in **Asset Management** – an increase in investment product sales by 44% YoY.
- The development of **relational banking** among institutional clients:
  - Increase in **global clients'** assets by 37% YoY;
  - Increase in average **current account balances** by 16% YoY;
  - Increase in trade finance assets (letters of credit, guarantees, supplier finance program) by 18% YoY;
  - For the fourth year in a row, the prestigious *Euromoney* magazine **awarded a prize** to Citi Handlowy **for its transactional services.**
- Using **global experience and unique local knowledge:**
  - The execution of leveraged M&A deals;
  - Focus on companies which operate in the e-commerce market.
- Leading position in the area of **financial markets**:

- The Bank's strong position with respect to FX trading volumes. 80% of all transactions are conducted through CitiFX Pulse;
- The first place in the prestigious Ministry of Finance Dealers of Treasury Securities ranking (for the seventh time in a row);
- The Bank maintained its leading position in depositary and custody activities;
- DM Citi Handlowy ("DMBH") is among the leaders in the capital market in terms of its share in turnover in stocks traded on the secondary market (9.5%);
- DMBH reported an increase in the number of investment accounts by 10% YoY, primarily due to a steady growth in the number of brokerage service agreements related to foreign markets which are performed using the CitiFX Stocks platform.

- **High level** of the Bank's **capital safety**: high quality of assets and capital, Tier 1 ratio at 17.9%. Its Tier 1 ratio is approx. 6.8 p.p.[1] above the new minimum capital thresholds.
- **Building value for shareholders** – safety and stable position of the Bank confirmed by a consistent dividend policy. At the same time, the Bank also maintained its listing in the new edition of the RESPECT Index – the WSE index comprising the most socially responsible companies. Citi Handlowy is one of the two banks that have remained on the list since its first edition.

4. Development prospects for the Bank Handlowy w Warszawie S.A.

4.1 General development objectives of the Group

The Group focuses on its competitive advantages. Credit cards and solutions for affluent clients have been among these advantages in the consumer segment for many years. In the institutional segment, the Group stands out as a provider of services to global companies and major domestic enterprises. In addition, the Group maintains a particular focus on products related to the foreign exchange market, transactional banking and custody services.

General Group development objectives assume that the adopted strategy based on building its market position around the strategic advantages identified above will be pursued further. In subsequent quarters, growth will be achieved owing to deepening relationships with current clients as well as the acquisition of new clients who have not had a relationship with the Bank to date. In the Consumer Bank area, the constantly developed remote service channels which add new functionalities and improve service quality will be an important factor in this respect alongside the modern Smart and Smart Mini outlets. Modern digital tools will be used to provide Asset Management services. As concerns Corporate and Commercial Bank, business growth will be achieved through increasing focus on companies which operate in the e-commerce market, providing comprehensive services to global companies in Poland and leveraging private equity funds' interest in the Polish market.

Financing structure will continue to be largely based on operating accounts, with safety and a robust capital position remaining priorities in treasury activities.

The Group in particular stresses continued building of shareholder value by improving operational efficiency and leveraging its market advantages of a strong capital and liquidity position.

4.2 Institutional banking

The Group aims to acquire new clients as well as to deepen its existing relationships, especially with those clients who plan to expand into new markets. Through its Emerging Market Champions program, the Bank plans to become a trusted partner for companies and support their international development and expansion as well as to maintain close working relationships in the long term. To this end, the Bank is constantly enhancing its range of trade finance products and its processes for handling transactions in the foreign exchange market.

In the near future, focus on companies which operate in the e-commerce market will be important for the development of the institutional segment, especially activities aimed at automating the management of receivables in online stores as well as comprehensive services for global companies and leveraging the private equity funds' in the Polish market.

Keys to Corporate and Commercial Bank success will include not only the Bank's high credibility confirmed by its established market position, robust capital position and extensive experience, but also its focus on innovative solutions and technological development as well as global presence. In this manner, the Bank not only retains a leading position in strategic areas but is also able to compete by offering state-of-the-art solutions.

4.3 Brokerage activity

The key factor that affects the results achieved by Dom Maklerski Banku Handlowego S.A. (DMBH) brokerage house is the institutional investors' activity, which in turn depends on the market situation and the inflow of funds. As concerns brokerage house activity, an important element which affects the market is the implementation of the MiFID II. An additional significant factor causing uncertainty are the planned changes to the pension system (replacing the 2nd pillar with Occupational and Individual Capital Plans).

New regulations protecting investment firm clients' interests and pertaining to the processing of personal data (MiFID II, GDPR and similar laws) pose huge challenges, especially in organizational and technological terms. These laws are increasingly contributing to the growing complexity of processes and driving up the break-even threshold for brokerage activities in Poland.

[1] The current minimum Tier 1 capital requirement for the Group is 11.1% after maintaining the OSII buffer at 0.25%.

In parallel with regulatory changes, the domestic market is also becoming more and more concentrated. The largest brokerages owned by banking groups are increasingly competing in the relatively weaker institutional client segment, which was historically the main area of DMBH's activity. This considerably intensifies the price pressure. In the current circumstances, i.e. in the light of the entry of new MiFID II regulations into force, this pressure has been additionally exacerbated in an unprecedented manner by the need to list fees for research and consultancy activities separately.

Thanks to its market position to date, advanced infrastructure and the competences of its experienced team, DMBH sees an opportunity to neutralize the probable adverse effects of the implementation of new regulations.

The brokerage house implements technological projects whose purpose is the further automation and streamlining of processes and development towards offering solutions which enable the provision of cost-effective services to domestic and international institutional clients who are interested in algorithmic trading and executing high-volume transactions.

In view of the changes taking place on the brokerage services market for institutional clients, the development of the consumer segment is of particular importance for the Group. In this segment, there are opportunities to make the cooperation between DMBH and the Bank even more efficient. Another important area whose development may be a key factor for stabilizing DMBH's financial position is capital market origination where the Group intends to be an active participant, continuing its long history of successes in this segment.

4.4 Consumer banking

In 2018, the Bank will consistently continue to pursue its strategy related to client segmentation and business model. The Bank intends to develop a range of products and services in such a way as to provide the best value and to meet the financial needs of clients in target segments as much as possible.

One of the strategic objectives will be to consolidate its leading position in banking services for affluent clients. To this end, the Bank will continue to develop products for Citigold clients and its unique offer implemented on the market at the end of 2015 for the most affluent clients - Citigold Private Client (CPC). Among other things, the Bank plans to expand its range of investment and insurance products and exceptional privileges offered to clients as well as to introduce online solutions which will enable clients to manage their assets conveniently and safely at any place and time. For these groups of clients, the Bank will continue to cooperate with other Citi entities around the world in order to provide clients with highest-quality solutions in the area of global banking.

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

The Bank will seek to strengthen its leading position in the credit card market by offering products from the global Citi product range, which are accepted all over the world and offer exceptional value for the client, e.g. in the form of loyalty programs. An important objective will be also to increase the market share of unsecured loan products by meeting the credit needs of the growing number of clients with a competitive offering of cash loans or hire purchase products. The Bank will also focus on the strategic development of its cooperation with external partners, in particular with respect to e-commerce, in order to make its banking products more attractive to clients.

The Bank intends to continue to pursue its strategy related to its network of consumer branches, concentrating outlets in major cities in Poland (so-called G9). Aiming at maximum presence and recognition, the Bank will use the mobile Smart Mini and Smart Mobile formats in order to follow its existing clients and enhance its capability of attracting new clients in attractive and popular locations.

Since clients must be able to manage their finances easily and quickly, the Bank's strategic goal in 2018 will be to further develop the functionalities of the online and mobile banking platforms as well as educating clients in the use of online banking as the primary service channel. The Bank will also continue to automate banking operations in order to optimize costs and improve client experience by expediting and simplifying its processes (e.g. instant credit decision).

A major challenge for the Bank and at the same time its strategic goal in 2018 will be the preparation, in both legal and business terms, for regulatory changes in order to ensure compliance with, and leverage the potential benefits resulting from, new regulations (e.g. MiFID II, PSD2 and GDPR).

5. Awards and honors

In 2017, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- Dom Maklerski Citi Handlowy was also number one in the prestigious global ranking drawn up by the **Institutional Investor Magazine**. Each year, the Magazine asks international institutional investors for their opinions on the brokers' analytical activities. As a result, the Brokerage House analysis team was ranked first in CE3 (Poland, Hungary, Czech Republic) according to brokerage house clients. In the specialist category (the power generation sector), it came second.
- During the annual gala held by the **Warsaw Stock Exchange**, Citi Handlowy won the "First Account Operator for a Global National Depository for Securities Participant" and "Market Making Leader at Treasury BondSpot Poland" awards. It also received a special award for particular contribution to the development of the Treasury BondSpot Poland market in 2016. Dom Maklerski Citi Handlowy was awarded for the ninth consecutive time for the **highest share in stock trading in the Main Market**.
- The Bank, for the seventh time in a row, won the competition for **Treasury Securities Dealers** held by the Ministry of Finance.

- For the fourth year in a row, **the prestigious Euromoney magazine has named Citi Handlowy's transactional services the best in Poland**. This distinction is awarded based on ratings from clients who have once again indicated that the Bank is the leader in the financial industry.
- Citi Handlowy was included for the eleventh time in the **RESPECT Index** – the first index of responsible companies in Central and Eastern Europe compiled by the Warsaw Stock Exchange. The Bank is among the few listed companies which have been rewarded in this way each year since the Index was created in 2009. The area evaluated by the index is the incorporation of sustainable development principles in long-term business strategies.
- Citi Handlowy received the **"Ethical Firm" award from *Puls Biznesu***. In the 3rd edition of the daily's business competition, 15 companies were selected with the highest ethical standards that engage in comprehensive, systemic measures in order to build and strengthen an organizational culture based on values and that are the most active companies in Poland in this respect.
- **20 initiatives in the field of corporate social responsibility (CSR) launched by Citi in Poland were featured in this year's 15th edition of the Responsible Business Forum report.** "Responsible Business in Poland. Good Practices" is the only publication summarizing the most important projects in the field of CSR in Poland. Among long-term practices, initiatives such as, *inter alia*, the Citi Employee Volunteering Program, the "Poles' Attitudes Towards Finance" survey and the Aleksander Gieysztor Award have been taken into account. A good practice mentioned in the report for the first time is the ArtSherlock app, which revolutionizes the identification of works of art that were plundered during wars.
- Citi Handlowy received the "**Benefactor of the Year**" title in two categories: "New Technologies in Community Involvement" and "Staff Volunteering". The prize in the first category was awarded to the ArtSherlock app, which was created in partnership with the Communi Hereditate Foundation, the Leopold Kronenberg Foundation at Citi Handlowy and the Ministry of Culture and National Heritage. The Employee Volunteering Program coordinated by the Leopold Kronenberg Foundation at Citi Handlowy, which has operated since 2005, was voted the best program of its type.
- In the **Corporate Responsibility Ranking 2017** compiled by the *Gazeta Prawna* daily, Citi Handlowy was classified at the crystal level, i.e. among mature companies that are active in the CSR area.
- Citi Handlowy was also awarded the **White Leaf by the *Polityka* weekly**. This accolade goes to those companies which declare that they implement all of the most important management measures recommended by ISO 26000 and continuously improve their activities in this area to efficiently manage the impact of their business.
- **The Citi Simplicity card was awarded the Golden Banker award** in the best credit card product category **for the second time in a row.** In the eighth edition of the ranking compiled by the Bankier.pl website and the *Puls Biznesu* daily, Citi Handlowy was also singled out for best practices in the "security" category. The bank also found itself on the podium in the mortgage loan category.
- For the fourth time (and for the third time in a row), the Citi Handlowy CitiPhone Customer Service Department won an award in the "**Global Contact Center Top Performing Markets Award Program**" annual competition for 2016.

II. Poland's economy in 2017

1. Main macroeconomic trends

External environment

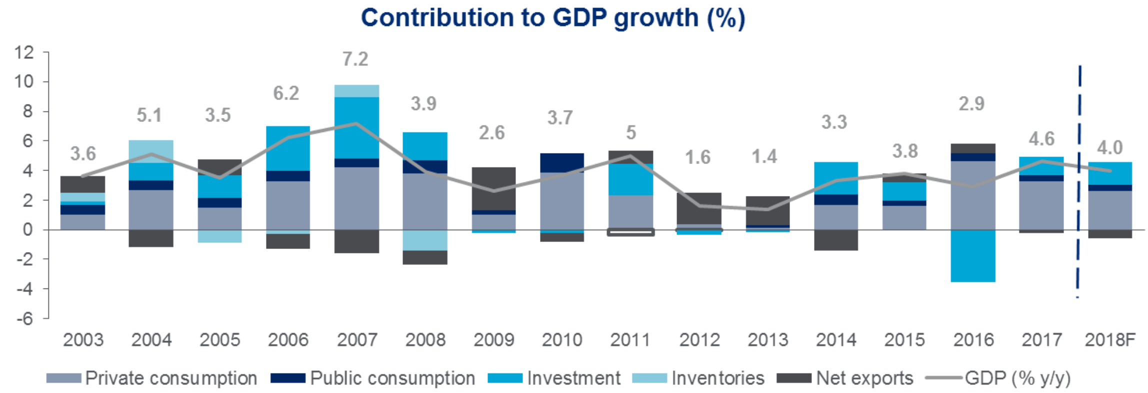
2017 was a year of improving macroeconomic prospects in the major economies, especially in the eurozone and the United States. Last year was the first period in more than four years in which economic growth forecasts were revised up rather than down. As a result, global GDP growth was close to 3.2% compared to 2.6% in 2016, growth in the eurozone accelerated to ca. 2.3% from 1.7%, and in the U.S. to 2.3% from 1.6%. The improvement in economic situation was accompanied by a change in the major central banks' rhetoric towards monetary policy tightening. The U.S. Federal Reserve continued its interest rate increase cycle and the European Central Bank signaled the tapering of the asset purchase program in 2018. In parliamentary elections in France and Germany, pro-European parties emerged victorious, which contributed to greater risk appetite. The U.S. Congress enacted an act which will lower taxes by around USD 1.5 trillion in the next few years, which will have a positive impact on U.S. growth prospects as well as global growth in the coming years. The upbeat economic mood translated into increases in stock indices both in Europe and the U.S. where they reached historical peaks. Moreover, Treasury bond yields rose in both the United States and Germany. In 2018, we expect positive trends to continue and global growth to accelerate to 3.4%, further monetary policy tightening by the Fed to follow and the eurozone asset purchase program to be phased out, accompanied by announcements that the ECB will only increase interest rates in 2019.

Gross Domestic Product

According to the data prepared by the Central Statistical Office, gross domestic product increased by 4.6% YoY in 2017 as against 2.9% YoY in 2016. Economic growth surprised on the upside throughout the year and amounted to around 4% on average in the first half of the year, subsequently accelerating to 4.9% in the third quarter, i.e. the highest rate since 2011. The main growth driver was domestic demand, combined with further improvement in consumption and a rebound in investments. In 2017, household consumption accelerated to 4.8% YoY from 3.9% at the end of 2016, which reflected on the one hand the continued improvement in the labor market, and on the other hand the still positive contribution of the transfer of funds from the state budget to households. Throughout 2017, investments increased by 5.2% YoY after a decline by 7.9% YoY in 2016, assisted, *inter alia*, by the greater inflow of EU funds.

Foreign trade had a slight negative impact on the GDP, although trade accelerated and major trading partners experienced faster GDP growth. The final balance was influenced by the fact that imports rebounded more than exports, which was consistent with the acceleration in domestic demand. The Polish economy still benefited from very low oil prices on the global markets. On the other hand, the relatively weak Polish zloty continued to provide support for exports.

In 2018, we expect a slight deceleration in economic growth (to ca. 4%), which will result in a slowdown in household consumption, partially offset by accelerating investments. In our view, consumption will be boosted by further improvement in the labor market, but the positive contribution related to transfers to households will decline. On the other hand, investments may grow faster thanks to the continuously rising inflow of EU funds.



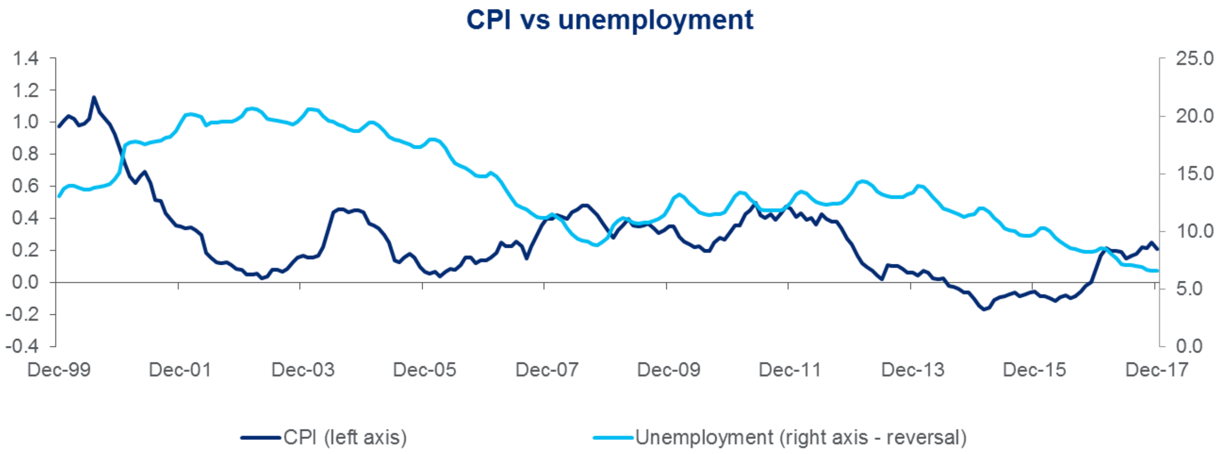
Source: Chief Statistical Office, Citi Handlowy forecast

Labor market

Labor market conditions further improved and the unemployment rate declined to 6.6% at the end of 2017 compared to 8.3% at the end of 2016. The demand for labor remained robust and the number of new job offers per unemployed person rose to record high levels. As a result, nominal wage growth accelerated to 5.6% YoY (from 4.1% YoY in 2016), and employment growth accelerated to 4.5% (from 2.9%). We expect that in 2018, economic growth will remain rapid and the unemployment rate will continue to decline; in view of the enterprises' clear difficulties with finding qualified employees and rising inflation, this will contribute to a further intensification in wage pressure, which will make itself felt. We believe that wage growth will accelerate to more than 7% this year, and in some industries it will exceed 10% on average.

Inflation

Prices of consumer goods and services rose by 2% YoY on average in 2017 as against a decrease of 0.6% YoY in 2016. Higher inflation was contributed to by more significant increases in food and transportation prices. Additionally, net inflation, i.e. excluding food, fuel and energy prices, also rose to 0.8% from -0.3% in 2016. In November 2017, inflation reached the target set by the Monetary Policy Council for the first time since the end of 2012. Despite the robust growth and price increase, the MPC decided to maintain the benchmark rate at a historically low level of 1.50%. As a result, interest rates fell below zero in real terms. Additionally, in their recent statements representatives of the Monetary Policy Council indicated that interest rates may remain unchanged in 2018. In our opinion, the Monetary Policy Council will raise rates by 50 to 75 bps in 2019.

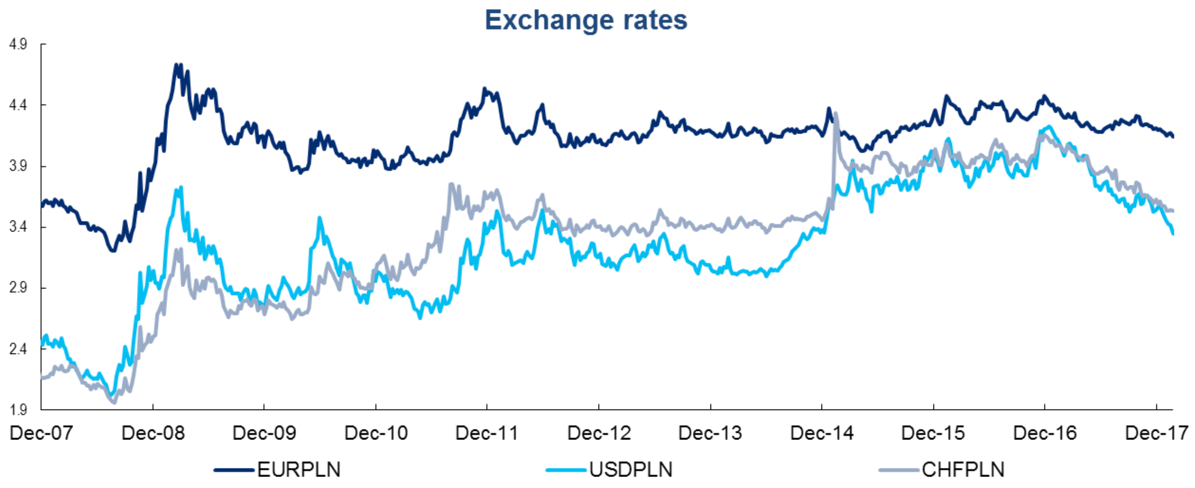


Source: National Bank of Poland, Chief Statistical Office, own calculations

2. Money and forex markets

In 2017, the Polish zloty appreciated by ca. 5.2% against the euro and by ca. 16.8% against the U.S. dollar. Versus the euro, the zloty was among the best-performing emerging market currencies. During the year, the U.S. dollar gradually weakened against the euro, which partly resulted from the decreasing gap in the economic growth rate between the eurozone and the United States, the ECB's announcement concerning the tapering of the asset purchase program and the current account surplus in the eurozone accompanied by the U.S. trade deficit. The volatility of the zloty exchange rate dropped, nearing historically low levels. Election results in France and Germany brought relatively positive news for risk appetite. As a result of those developments, the EUR/PLN rate decreased from 4.40 to 4.18 during the year while the USD/PLN decreased from 4.18 to 3.48 and the CHF/PLN rate fell from 4.11 to 3.57.

Money market rates remained relatively stable in 2017. WIBOR 3M stood at 1.72% at the end of the year against 1.73% at the end of 2016. Despite the slight increase in swap rates, bond yields decreased by around 20 to 30 bps during the year, which was largely due to narrower credit spreads. Yields were driven down by the fact that the supply of Treasury bonds was significantly smaller than expected owing to the much lower budget deficit. As a result, the yield of 2-year Treasury bonds decreased from 2.04% at the end of 2016 to 1.71% while the yield of 10-year ones fell from 3.63% to 3.30%.



Source: Reuters, own calculations

3. Capital market

The upbeat mood in the global financial markets, which was triggered by the presidential election in the U.S. in the fourth quarter of 2016, was also reflected in the upward trend observed on the Warsaw Stock Exchange in 2017. The domestic stock market was additionally supported by robust economic figures and improving earnings (particularly in the case of blue chips). Rising commodity prices, which translated into positive investor sentiment towards companies from the mining, fuel and chemical industries, were important as well.

In the past 12 months, all major indices recorded positive returns, with the WIG broad market index advancing by 23.2% and reaching 63,745 points (6% below the 2007 record). Meanwhile, prices of blue chip stocks surged the most rapidly with the WIG20 (net of dividend) gaining 26.4% YoY. The mWIG40 mid-cap index rose by 15% YoY. The lack of inflows to domestic equity funds and deteriorating corporate results (which were caused, among others, by wage pressure) translated into a clearly slower growth rate of small-cap share prices; the sWIG80 index, which groups companies from this segment, gained just 2.4% YoY. Among sector sub-indices, the improving condition of banks (+35.4% YoY) and commodity companies are of note (compared to the end of 2016, WIG-Fuels gained 26% YoY, while WIG-Mining advanced by 25% YoY). On the other hand, the food (-12.7% YoY), IT (-5.3% YoY) and construction (-1.3% YoY) subindices lost ground.

In 2017, the number of companies listed on the WSE main market decreased for the first time since 2003. In the last 12 months, 20 companies were delisted (the highest number in history), and there were just 15 new listings (including 7 for companies which moved from the New Connect market), i.e. the lowest number since 2009. The total value of initial public offerings exceeded PLN 7.5 billion, reaching the highest level since 2011, but just two companies (Dino Polska and Play Communications) accounted for 80% of the entire amount. As at the end of December, shares in 482 companies (including 50 foreign ones) with a total capitalization of PLN 1,419 billion (an increase by 27% YoY) were traded on the Warsaw Stock Exchange.

Stock market indices, as at 31 December 2017

Index	2017	Change (%)	2016	Change (%)	2015
WIG	63,745.30	23.2%	51,754.03	11,.4%	46,467.38
WIG-PL	65,263.00	24.1%	52,583.91	10.9%	47,412.44
WIG-div	1,213.88	16.8%	1,039.29	8.4%	958.66
WIG20	2,461.21	26.4%	1,947.92	4.8%	1,859.15
WIG20TR	4,261.88	29.3%	3,296.32	7.9%	3,054.29
WIG30	2,825.27	25.9%	2,243.30	8.1%	2,075.51
mWIG40	4,847.27	15.0%	4,215.54	18.2%	3,567.05
sWIG80	14,595.76	2.4%	14,259.47	7.9%	13,211.23
Sector sub-indices					

Index	2017	Change (%)	2016	Change (%)	2015
WIG-Banks	8,481.97	35.4%	6,263.33	2.9%	6,086.60
WIG-Construction	2,819.16	(1.3%)	2,857.41	(2.4%)	2,926.28
WIG-Chemicals	15,297.93	11.2%	13,755.90	(16.4%)	16,458.51
WIG-Energy	2,990.57	17.2%	1,829.06	(12.9%)	2,928.40
WIG-Mining	4,394.93	25.0%	2,551.21	79.7%	1,956.85
WIG-IT	2,041.80	(5.3%)	2,155.40	33.7%	1,611.73
WIG-Media	4,791.34	5.0%	4,561.93	15.7%	3,942.07
WIG-Developers	2,198.05	20.2%	5,668.84	20.9%	1,513.35
WIG-Oil & Gas	7,140.43	26.0%	4,154.32	26.9%	4,468.32
WIG-Food	3,627.59	(12.7%)	3,516.44	21.4%	3,420.99
WIG-Telecom	745.44	2.1%	730.02	(9.6%)	807.99

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

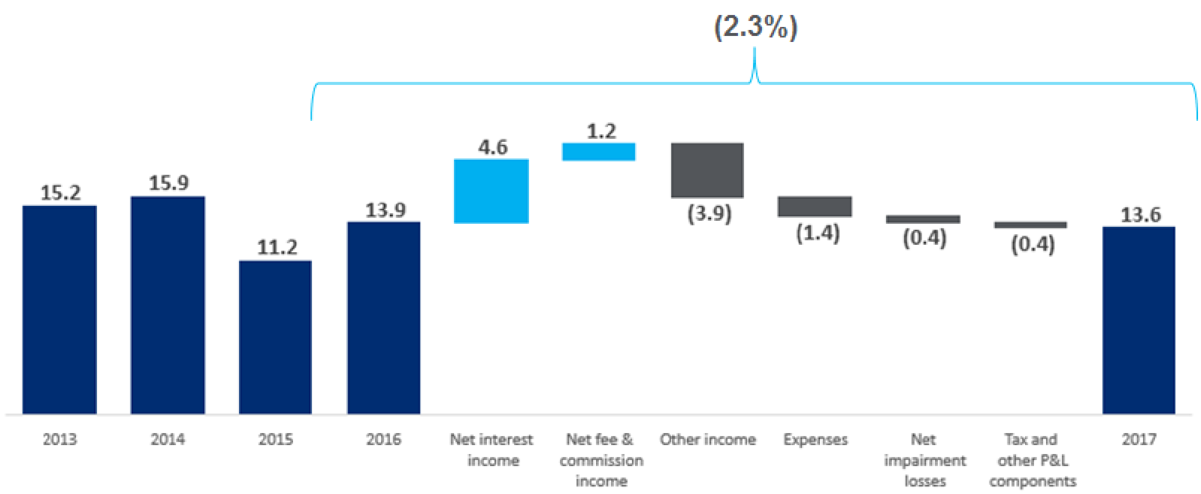
Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2017

	2017	Change (%)	2016	Change (%)	2014
Shares (PLN million)*	521,957	29.0%	405,585	(10.2%)	450,574
Bonds (PLN million)	2,893	1.5%	2,851	57.7%	1,808
Futures ('000 contracts)	14,637	(3.7%)	15,195	(2.2%)	15,534
Options ('000 contracts)	609	(19.3%)	754	(13.9%)	876

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

4. Banking sector

Net profit of the banking sector (PLN billion)

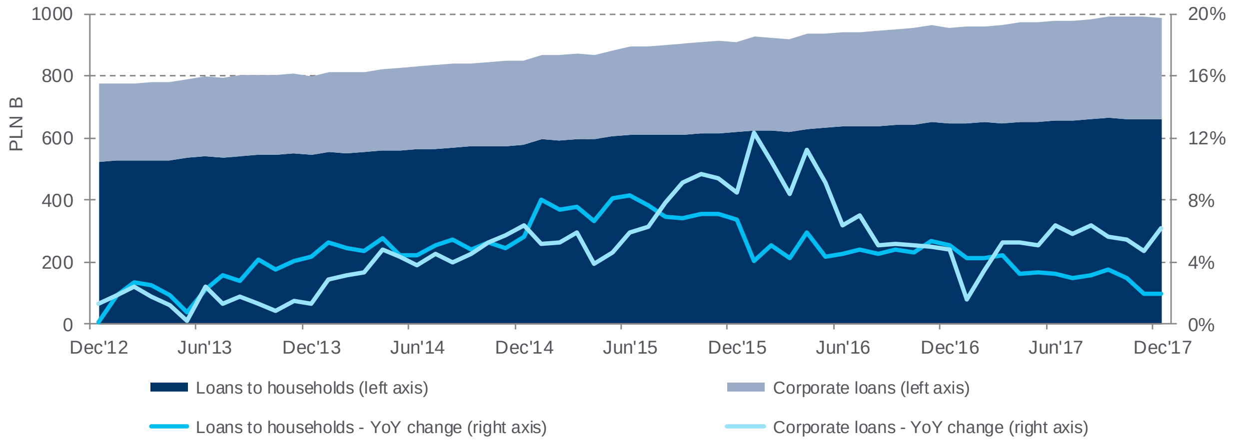


Source: Polish FSA, own calculations

Financial results

According to PFSA figures, net profit of the banking sector in 2017 declined by 2.3% (PLN 314 million) compared to the last year, to the level of PLN 13.6 billion. Despite the decrease in net income, an improvement in the banks' net interest income was observed (+12.1% YoY, PLN 4.6 billion), which was achieved through an increase in lending and reducing the cost of financing. Net fee and commission income also increased significantly (+9.1% YoY, PLN 1.2 billion). The banks' total income was adversely affected by other income categories, which were down by as much as 34.1% (PLN 3.9 billion) compared to the previous year, and this was primarily due to the absence of non-recurring events. 2016 earnings had been significantly affected by the sale of Visa Europe to Visa International, which resulted in more than PLN 2 billion of additional income in the second quarter of 2016. Despite this fact, the total income of the banking sector increased by PLN 1.9 billion to PLN 63.8 billion. Among the remaining factors which had a negative impact on the banking sector's net income, the increase in costs by 4.0% YoY (PLN 1.4 billion) played the most important role. This increase included higher depreciation and amortization expenses, higher administrative expenses as well as a significant increase in bank tax (+23.8% YoY, PLN 834 million). The increase in the amount of bank tax paid stemmed, *inter alia*, from the fact that in 2017 it accrued for 12 months rather than 11 as it was the case in 2016. Impairment write-downs, which increased by 4.5% YoY (PLN 414 million), also had a negative impact on net income. In 2017, the banking sector paid PLN 570 million (+13.6% YoY) more income tax than in the previous year. Owing to the simultaneous increase in the banks' income and costs, no major changes in the efficiency of the banking sector were recorded with the cost/income ratio remaining at 56% (-0.5 p.p. YoY). A clear improvement in the quality of the loan portfolio as measured by the NPL ratio was recorded (-0.3 p.p. YoY to 5.9%). The most important improvement was noted for the portfolio of corporate loans for which the ratio of non-performing loans (NPL) decreased during the year by 1.0 p.p. to the level of 8.2%. The improvement of the ratio took place in the area of loans granted to large enterprises (-1.1 p.p. YoY to the level of 5.8%) as well as in loans to small and medium-sized enterprises (-1.0 p.p. YoY to the level of 10.0%). In the portfolio of loans to households, the NPL ratio remained unchanged at 6.1%. Improvement was reported in the consumer loan area (-0.4 p.p. to 11.5%) while the ratio for mortgage loans, which account for a much larger portion of the retail loan portfolio, dropped only slightly by 0.1 p.p. YoY to 2.8%.

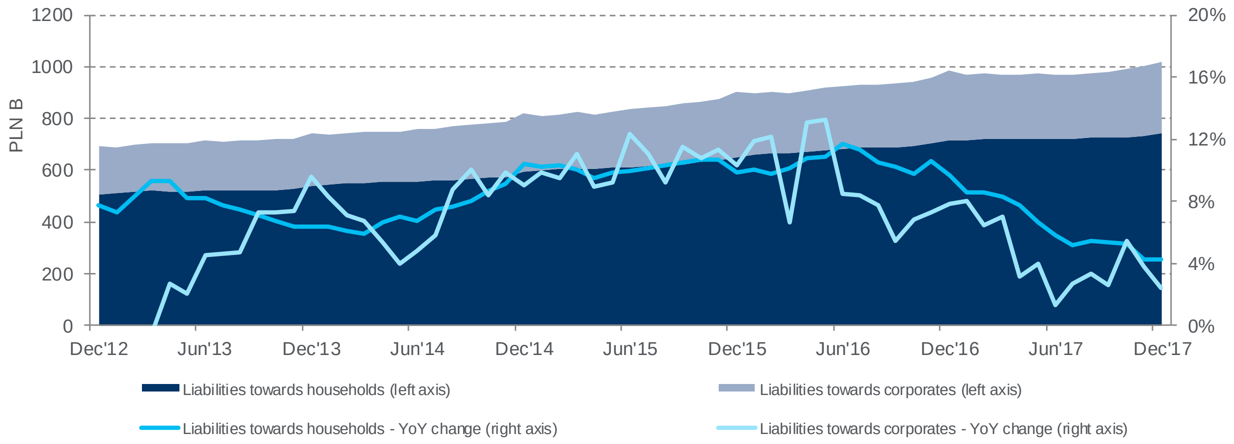
Loans to households and corporates



Source: NBP, own calculations

In 2017, growth in lending to the non-financial sector decelerated from 5.1% YoY (PLN 52 billion) at the end of December 2016 to 3.2% YoY (PLN 35 billion). This occurred despite the fairly significant acceleration in the growth rate of corporate loans (+6.1% YoY, PLN 19 billion) whose volume reached PLN 325 billion as at end 2017. As concerns the purpose of the loans contracted by enterprises, the highest growth was reported for investment loans (+10.9% YoY). Current loans grew slightly slower (+7.3% YoY) while real estate loans remained at a level similar to that recorded in the last year (+1.6% YoY). In terms of their original tenors, the highest growth was recorded for medium-term loans granted for periods from one to five years (+14.4% YoY). The volume of long-term loans grew much more slowly with their volume as at the end of 2017 having increased by 5.1% YoY, while short-term loans (up to 1 year) recorded a slight decline in volume of 0.3% YoY. The growth rate of loans to households fell considerably. In this category, the increase in volume decelerated to just 1.9% YoY (an increase by PLN 13 billion to PLN 661 billion). The fastest-growing category were current loans to entrepreneurs and individual farmers (+13.0% YoY). Consumer lending volume also continued to grow rapidly (+6.9% YoY, by PLN 10.8 billion to PLN 168 billion). The value of real estate loans taken out by households reached PLN 405 billion at the end of 2017, i.e. 0.1% (PLN 419 million) less than at the end of 2016. The decrease was driven by the significant appreciation of the zloty against major foreign currencies in the past year. This was confirmed by the dramatic fall in the volume of real estate loans expressed in currencies other than the zloty (-18.9% YoY, PLN -30.7 billion). At the same time, the market of real estate loans in Polish zloty recorded a significant increase by 12.5% YoY (PLN 30.3 billion).

Households and corporates deposits



Source: NBP, own calculations

In 2017, corporate deposits in the banking sector increased by just 2.4% YoY (by PLN 6.4 billion to PLN 276 billion). This growth was largely due to the still high growth rate of current deposits (10.2% YoY to PLN 187 billion). On the other hand, time deposits declined by as much as 11.0% YoY (with the volume dropping to just PLN 89 billion). Similar trends could be observed in the household segment. The balance of deposits for this client category increased by 4.2% YoY (by PLN 30.2 billion to PLN 744 billion). Similarly to corporate deposits, the growth was driven by current deposits (an increase by 12.8% YoY, by PLN 51.2 billion to PLN 451 billion), while time deposits declined by 6.7% YoY (by PLN 21 billion to PLN 293 billion).

Most forecasts indicate that similar market conditions will prevail in 2018. Interest rates are likely to remain unchanged for at least most of the year, and banks will still be burdened by higher bank tax and Bank Guarantee Fund charges. At the same time, most banks have already adjusted their asset structures to the current environment, which is reflected in higher interest income and lower interest expenses. Banks will maintain their focus on high-margin products.

The appreciation of the zloty against the Swiss franc considerably mitigated the risk for banks arising from foreign-currency mortgage loans. In the current circumstances, the probability of systemic solutions in this respect whose introduction could prove costly for the sector appears very low. On the other hand, considerable risk persists in connection with the poor financial standing of many credit unions whose possible collapse could result in a heavy burden for the banking sector.

Still, rapid economic growth and high growth of household consumption combined with a rebound in corporate investment expenditures offer a number of development opportunities for banks. At least in the short term, it appears that upbeat macroeconomic data will positively affect both lending growth and the quality of the loan portfolio.

During the last few years, heightened activity in the M&A area in the financial sector was clearly noticeable. The consolidation of banking institutions has significantly altered the composition of the sector and has left, it appears, only very limited room for further ownership changes. As a result, fewer such events are expected in 2018.

5. Tendencies in the Polish and Global economies in 2018

As the global economic recovery continues, the pace of monetary policy tightening by major central banks around the world, including the pace of interest rate increases, may exert a significant impact on the scale of capital inflows to the emerging markets. If interest rate increases in the United States and the eurozone proceed faster than expected, the risk of the foreign investors' flight from the domestic market will increase. This could lead to a depreciation of the zloty and an uptick in yields on Treasury bonds.

Increasing geopolitical tensions may result in heightened volatility in the financial markets. Any flare-up in the Middle East or Ukraine or conflict breaking out between North Korea and the United States could drive up the risk premium in emerging market asset valuations, including the zloty. Moreover, geopolitical uncertainty could also limit the inflow of foreign direct investment to the country, thus reducing the pace of fixed capital formation.

The work on the new European Union financial perspective will be affected by the planned departure of the United Kingdom from the EU. As a result of these changes, among other things, the new financial perspective could involve the reduction in the pool of EU funds available to Central European countries, including Poland. A lessened availability of cohesion funds could affect the development plans of Polish enterprises, especially in the longer term.

Any further significant increases in wage pressure could drive up unit labor costs and reduce corporate profitability. Additionally, uncertainty concerning changes in the domestic legal environment may contribute to Polish corporations putting off new investment projects. In the longer term, this risks reducing the development potential of the enterprise sector.

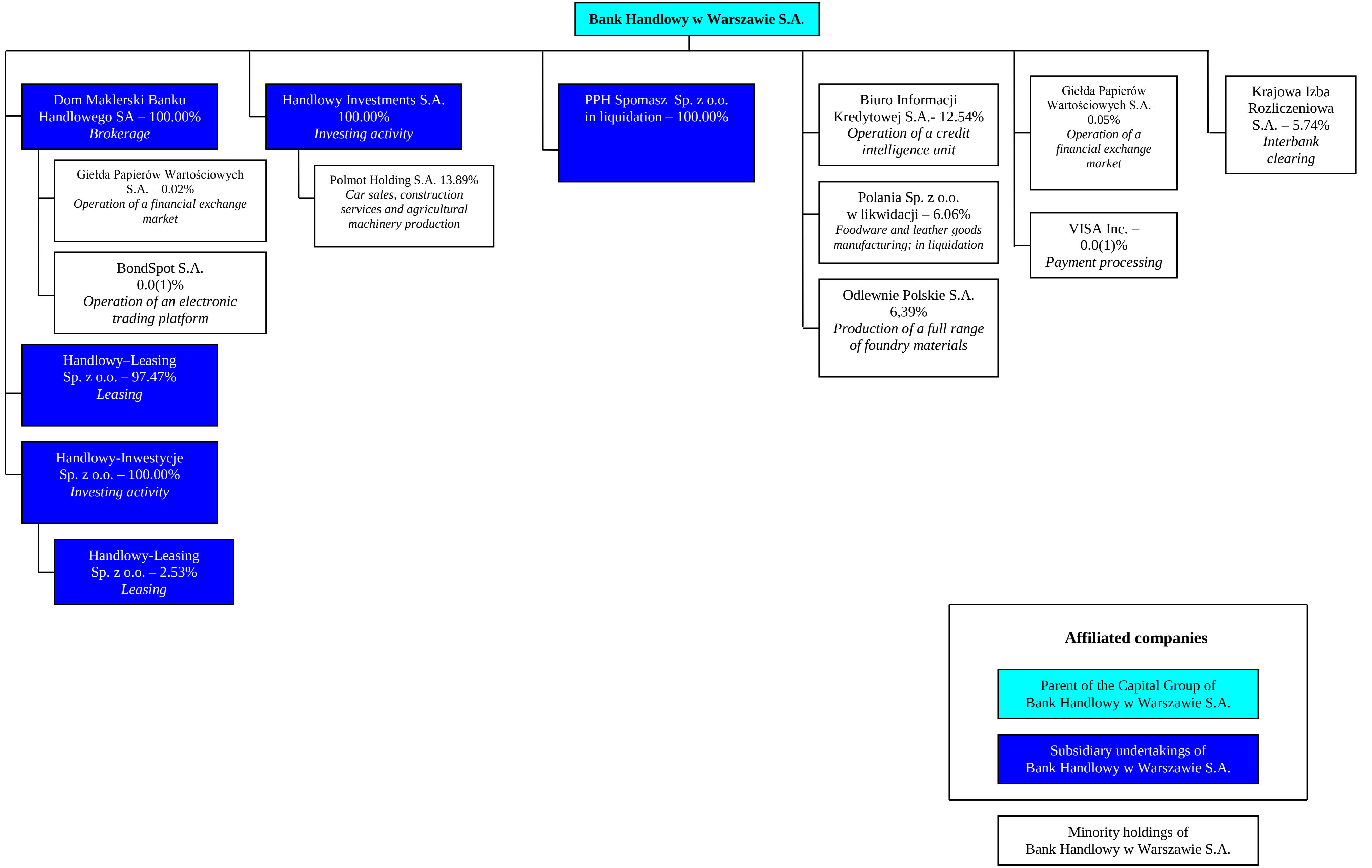
The above factors may affect the Group's performance in the reporting periods to come.

Poland economic indicators (%)	2011	2012	2013	2014	2015	2016	2017F	2018F
GDP growth, yoy	5.0	1.6	1.4	3.3	3.8	2.9	4.6	4.0
Domestic demand growth, yoy	4.2	-0.5	-0.7	4.7	3.3	2.2	4.9	4.6
Private consumption growth, yoy	3.3	0.8	0.3	2.6	3.0	3.9	4.8	4.0
Investment growth, yoy	8.8	-1.8	-1.1	10.0	6.1	-7.9	5.2	7.0
CPI (eop)	4.6	2.4	0.7	-1.0	-0.5	0.8	2.1	2.0
Policy interest rate (eop)	4.50	4.25	2.50	2.00	1.50	1.50	1.50	1.50

Source: Citi Handlowy's estimates as of March 6, 2018

III. 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 2017; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA – 100.00% Brokerage
Giełda Papierów Wartościowych S.A. – 0.02% Operation of a financial exchange market
BondSpot S.A. 0.0(1)% Operation of an electronic trading platform
Handlowy–Leasing Sp. z o.o. – 97.47% Leasing
Handlowy-Inwestycje Sp. z o.o. – 100.00% Investing activity
Handlowy-Leasing Sp. z o.o. – 2.53% Leasing
Handlowy Investments S.A. 100.00% Investing activity
Polmot Holding S.A. 13.89% Car sales, construction services and agricultural machinery production
PPH Spomasz Sp. z o.o. in liquidation – 100.00%
Biuro Informacji Kredytowej S.A.- 12.54% Operation of a credit intelligence unit
Polania Sp. z o.o. w likwidacji – 6.06% Foodware and leather goods manufacturing; in liquidation
Odlewnie Polskie S.A. 6,39% Production of a full range of foundry materials
Giełda Papierów Wartościowych S.A. – 0.05% Operation of a financial exchange market
VISA Inc. – 0.0(1)% Payment processing
Krajowa Izba Rozliczeniowa S.A. – 5.74% Interbank clearing
Affiliated companies
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiary undertakings of Bank Handlowy w Warszawie S.A.
Minority holdings of Bank Handlowy w Warszawie S.A.

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

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

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	6,874,618
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	112,254
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	22,430
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	17,869
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	in liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2017*
*** 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	11,077

**** Pre-audit data*

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

1. Summary financial data of the Bank and the Group

The financial data are presented both for the Bank and the Group in this report. Due to fact that Bank's activity contains major part of the Group's activity (total assets, equity and revenue of the Bank constitute respectively 99.6%, 99.1% and 98.8% of assets, equity and consolidated revenue of the Group), the financial results and statement of financial position presentation base on consolidated figures except where expressly indicated that presented data regard Bank data.

PLN million	Bank		Capital Group	
	2017	2016	2017	2016
Total assets	42,864.0	45,091.6	43,037.6	45,209.9
Equity	6 874.6	6,723.9	6,938.9	6,790.5
Amounts due from customers*	19,766.8	18,795.3	19,849.0	18,860.1
Deposits *	31,980.9	33,902.9	31,945.2	33,807.5
Net profit	537.1	604.2	535.6	601.6
Capital adequacy ratio	17.6%	17.2%	17.9%	17.4%

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

2. Financial results of the Bank and the Group in 2017

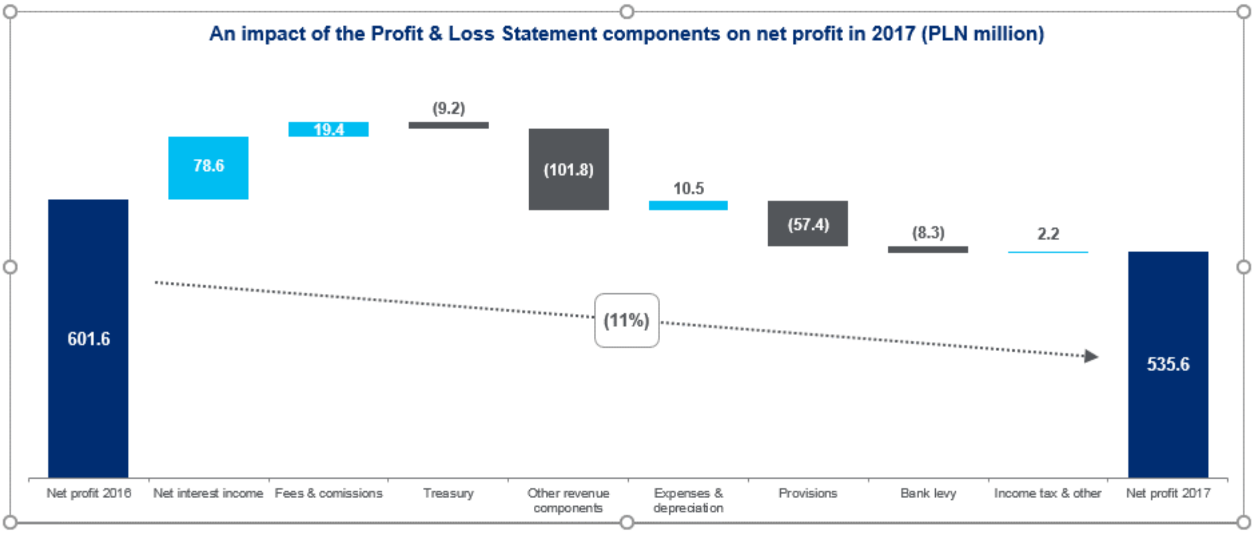
2.1 Income statement

The Group's gross profit for 2017 reached PLN 535.6 million and was PLN 66.0 million (i.e. 11.0%) lower than the profit for the year 2016. The consolidated gross profit for 2017 was PLN 707.1 million and decreased by PLN 57.2 million (i.e. 7.5%) as compared with the previous year.

Selected income statement items

PLN '000	Bank 2017	Bank 2016	Capital Group 2017	Capital Group 2016	Change PLN '000	Change %
Net interest income	1,078,921	999,870	1,082,147	1,003,571	78,576	7.8%
Net fee and commission income	541,523	526,401	580,661	561,229	19,432	3.5%
Dividend income	32,939	29,005	9,428	8,050	1,378	17.1%
Net income on trading financial instruments and revaluation	343,910	345,671	346,275	347,197	(922)	(0.3%)
Net gain on debt investment securities available-for-sale	35,772	44,746	35,772	44,746	(8,974)	(20.1%)
Net gain on capital investment instruments available-for-sale	3,377	95,913	3,377	95,913	(92,536)	(96.5%)
Net gain on hedge accounting	10,261	9,553	10,261	9,553	708	7.4%
Net other operating income	(2,747)	8,617	556	11,205	(10,649)	-
Total income	**2,043,956**	**2,059,776**	**2,068,477**	**2,081,464**	**(12,987)**	**(0.6%)**
Overheads and general administrative expenses and depreciation, including	(1,166,928)	(1,177,990)	(1,191,745)	(1,202,223)	10,478	(0.9%)
Overheads and general administrative expenses	(1,094,472)	(1,108,862)	(1,118,653)	(1,132,301)	13,648	(1.2%)
Depreciation/amortization of tangible and intangible fixed assets	(72,456)	(69,128)	(73,092)	(69,922)	(3,170)	4.5%
Profit/loss on sale of other assets	437	104	10,929	116	10,813	-
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	(99,491)	(48,759)	(103,189)	(45,768)	(57,421)	125.5%
Share in net profits of entities valued at equity method	-	-	242	50	192	384.0%
Tax on some financial institutions	(77,634)	(69,311)	(77,634)	(69,311)	(8,323)	12.0%
Profit before tax	**700,340**	**763,820**	**707,080**	**764,328**	**(57,248)**	**(7.5%)**
Income tax expense	(163,238)	(159,621)	(171,514)	(162,748)	(8,766)	5.4%
Net profit	**537,102**	**604,199**	**535,566**	**601,580**	**(66,014)**	**(11.0%)**

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

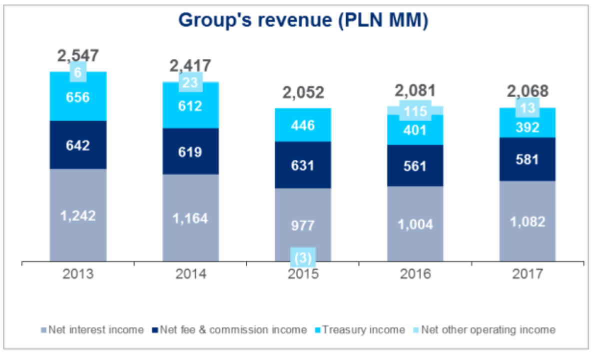


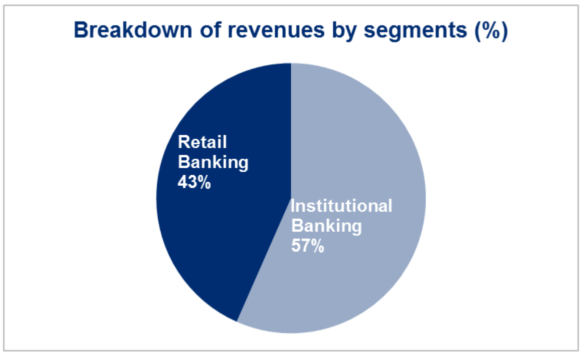
The following factors contributed to a change in net profit for 2017 as compared with 2016:

- Operating income (including net interest, fee and commission result, dividend income, the result on financial instruments held for trading and revaluation, the result on investment debt securities, the result on investment equity instruments, the result on hedge accounting and the result on other operating income and expenses) at PLN 2,068.5 million as against PLN 2,081.5 million in 2016 – a decrease of PLN 13.0 million (i.e. 0.6%). 2016 income had been affected by the posting of PLN 93.0 million in connection with the transaction whereby Visa Europe Limited was acquired by Visa Inc. With this transaction excluded, the Group's operating income in 2017 increased by 4% YoY.
- In 2017, the Group pursued a consistent cost discipline policy, as a result of which overheads and administrative expenses, depreciation and amortization fell by PLN 10.5 million (i.e. 0.9%).
- Net impairment write-downs and provisions for financial and guarantee commitments granted stood at PLN 103.2 million in 2017 as compared to PLN 45.8 million in the same period of the previous year, which translates to an increase of PLN 57.4 million. Higher write-downs were recorded by Corporate and Commercial Bank, which resulted from the establishment of loan provisions in the Commercial Bank segment, mostly for clients assessed on an individual basis.

2.1.1 Revenue

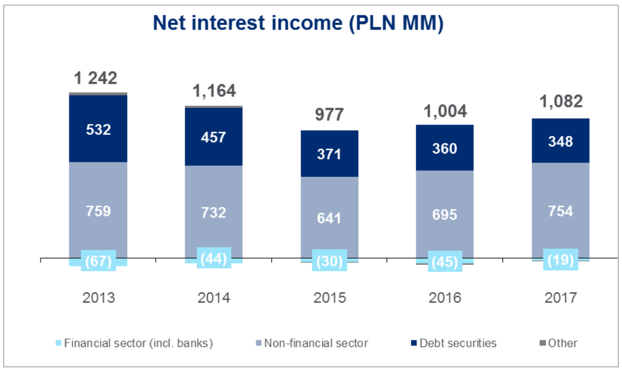
In 2017, operating income was PLN 2,068.5 million compared to PLN 2,081.5 million in the previous year, a decrease of PLN 13.0 million, i.e. 0.6%.

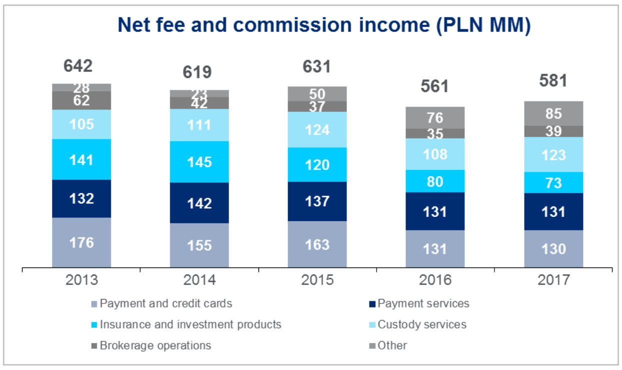




The Group’s operating result in 2017 was affected, without limitation, by the following factors:

- net interest income was the most important source of income for the Group in 2017 (52.3% of total income). It amounted to PLN 1,082.1 million compared to PLN 1,003.6 million in 2016, an increase of PLN 78.6 million, i.e. 7.8%. Interest income in 2017 increased by PLN 92.8 million (i.e. 7.4%) and amounted to PLN 1,351.4 million. Receivables from clients were the main source of interest income, which reached PLN 915.8 million and was higher by PLN 78.4 million (i.e. 9.4%) compared to 2016 as a result of the positive contribution of lending margins in the Corporate and Commercial Bank segment, combined with rising lending volumes and the increase in the average volume of unsecured receivables from consumers. Interest expenses in 2017 increased by PLN 14.2 million (i.e. 5.6%) compared to 2016. However, after the “Interest expenses arising from derivatives in hedge accounting” item has been excluded, interest expenses decreased by PLN 4.7 million (i.e. 2.3%) owing to the lower average volume of liabilities to banks. Liabilities to non-financial clients were the main source of interest expenses and remained almost unchanged;
- net fee and commission income amounted to PLN 580.7 million as against PLN 561.2 million in 2016 – the increase by PLN 19.4 million (i.e. 3.5%) was primarily due to the favorable situation in the financial markets in 2017, which translated into an improved result on custody services and the sale of structured products and the result on brokerage activities. Income from payment and credit cards, which was the largest source of fee and commission income, remained almost unchanged;



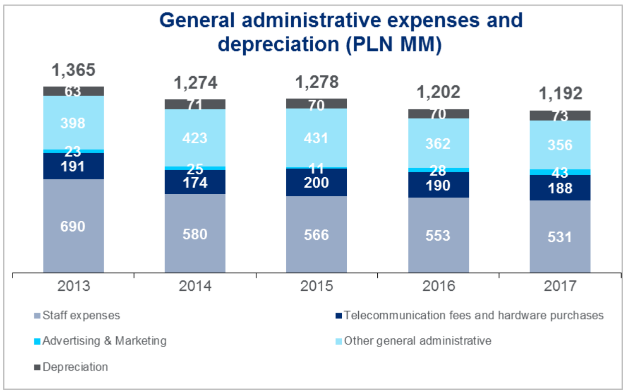


- the result on financial instruments held for trading and on revaluation, which amounted to PLN 346.3 million as against PLN 347.2 million in 2016, and the result on investment debt securities amounting to PLN 35.8 million as against PLN 44.7 million in 2016, i.e. a decrease by PLN 9.0 million;
- net income on investment equity instruments available for sale amounted to PLN 3.4 million as against PLN 95.9 million in 2016, i.e. a decrease of PLN 92.5 million due to the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. having been posted in 2016.

2.1.2 Expenses

General expenses & depreciation

PLN '000	Bank		Capital Group			
					Change	
	2017	2016	2017	2016	PLN '000	%
Personnel costs	**516,363**	**537,894**	**531,316**	**552,718**	**(21,402)**	**(3.9%)**
General administrative expenses, including:	**578,109**	**570,968**	**587,337**	**579,583**	**7,754**	**1.3%**
Telecommunication fees and IT hardware	182,848	183,938	188,484	189,622	(1,138)	(0.6%)
Building maintenance and rent	69,248	84,290	69,409	84,469	(15,060)	(17.8%)
Costs of external services, including advisory, audit, consulting services	52,745	54,872	53,447	55,356	(1,909)	(3.4%)
Total overheads	**1,094,472**	**1,108,862**	**1,118,653**	**1,132,301**	**(13,648)**	**(1.2%)**
Depreciation	72,456	69,128	73,092	69,922	3,170	4.5%
Total general expenses & depreciation	**1,166,928**	**1,177,990**	**1,191,745**	**1,202,223**	**(10,478)**	**(0.9%)**



Overheads and administrative expenses along with amortization and depreciation of PLN 1,191.7 million as against PLN 1,202.2 million in the same period last year. The decrease in expenses by PLN 10.5 million (i.e. 0.9%) resulted primarily from lower personnel costs, which were partially offset by higher overheads and administrative expenses. In 2017, there was a reduction in personnel expenses by PLN 21.4 million (i.e. 3.9%) versus 2016 as a result of the lower headcount. In the period examined, average employment in the Group declined by 221 FTEs. The increase in overheads and administrative expenses was caused by the increase in costs relating to the sale of banking products by PLN 15.3 million YoY and the increase in advertising and marketing expenses by PLN 15.1 million YoY, which was related to promotional campaigns conducted in order to build awareness of the Citi Handlowy brand. Those increases were partially offset by lower real estate rental and maintenance costs (by PLN 15.1 million YoY) in connection with the shift in the distribution system towards building the Smart Banking Ecosystem.

At the same time, depreciation and amortization expenses increased by PLN 3.2 million YoY in connection with the implementation of technological projects.

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

Net impairment and provisions

PLN '000	Bank		Capital Group			
					Change	
	2017	2016	2017	2016	PLN '000	%
Net impairment losses incurred but not reported (IBNR)	(898)	(11,229)	(852)	(8,527)	7,675	(90.0%)
Net impairment losses on loans and off-balance sheet liabilities	(98,338)	(39,243)	(98,210)	(39,179)	(59,031)	150.7%
accounted for individually	(39,818)	17,999	(39,702)	18,008	(57,710)	(320.5%)
accounted for collectively, on a portfolio basis	(58,520)	(57,242)	(58,508)	(57,187)	(1,321)	2.3%
Net impairment losses on equity investments	3,872	(225)	-	-	-	-
Other	(4,127)	1,938	(4,127)	1,938	(6,065)	-
Net impairment losses on financial assets and provisions for financial and guarantee commitments	**(99,491)**	**(48,759)**	**(103,189)**	**(45,768)**	**(57,421)**	**125.5%**

The establishment of net impairment write-downs amounting to PLN 103.2 million as against net write-downs amounting to PLN 45.8 million in 2016 – the deterioration, amounting to PLN 57.4 million, concerned primarily the Corporate and Commercial Bank (PLN 51.4 million of net impairment write-downs established in 2017 as against PLN 25.5 million reversed in 2016). This resulted from the establishment of additional loan provisions in the Commercial Bank segment, mostly for clients assessed on an individual basis. At the same time, in 2016, recoveries were observed for written-off receivables from some clients, which had a positive impact on net write-downs. In the Consumer Bank segment, a lower negative result was reported in the net impairment category, i.e. PLN 51.8 million as against PLN 71.2 million in 2016 in connection with the further improvement in portfolio quality, especially with respect to the receivables covered by IBNR provisions.

2.1.4 Ratio analysis

The Group's efficiency ratios

	2017	2016
Return on equity (ROE)*	8.5%	9.6%
Return on assets (ROA)**	1.2%	1.3%
Net interest margin (NIM)***	2.5%	2.2%
Margin on interest-bearing assets	2.7%	2.4%
Earnings per share in PLN	4.10	4.60
Cost/income****	58%	58%
Non-financial sector loans to non-financial sector deposits	66%	59%
Non-financial sector loans to total assets	41%	38%
Net interest income to total revenue	52%	48%
Net fee and commission income to total revenue	28%	27%

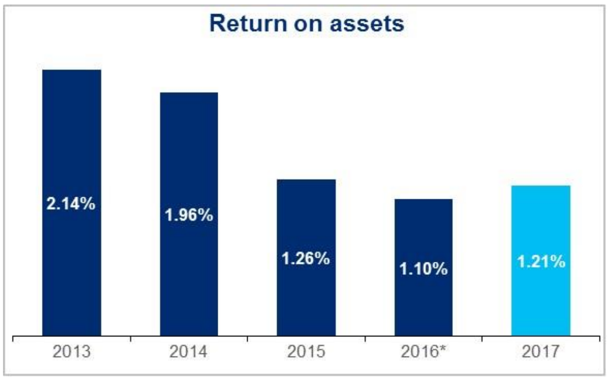
** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis;*
*** Net profit to average total assets calculated on a quarterly basis;*
**** Net interest income to average total assets calculated on a quarterly basis;*
***** Overheads, general administrative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

The Bank's efficiency ratios

	2017	2016
Return on equity (ROE)*	8.6%	9.8%
Return on assets (ROA)**	1.2%	1.3%
Net interest margin (NIM)***	2.5%	2.2%
Earnings per ordinary share in PLN	4.11	4.62
Cost/Income****	57%	57%

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

In 2017, the Group's returns on equity and assets remained at levels of respectively 8.5% and 1.21%.



**Net profit from 2016 was adjusted by VISA transaction in the amount of PLN 75 MM*

As concerns cost efficiency, the cost-income ratio remained almost unchanged at 58% as at the end of 2017. The year-on-year decline in income (due to the non-recurring event which had boosted income in 2016) was mostly offset by a decrease in operating expenses. Excluding the one-off 2016 transaction, the cost-income ratio fell by 3 p.p. compared to the previous year.

In 2017, interest margin improved, increasing to 2.5% on total assets and to 2.7% on interest-bearing assets, mainly due to rising lending margins.

2.2 Consolidated statement of financial position

As at 31 December 2017, total assets of the Group reached PLN 43,037.6 million and were 4.8% lower than at the end of 2016.

Consolidated statement of financial position

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	tys. zł	%
ASSETS						
Cash and balances with central bank	462,126	665,755	462,126	665,755	(203,629)	(30.6%)
Receivables from banks	836,166	586,973	836,774	587,087	249,687	42.5%
Financial assets held for trading	2,162,040	3,772,162	2,179,925	3,781,405	(1,601,480)	(42.4%)
Hedging derivatives	-	12,244	-	12,244	(12,244)	(100.0%)
Debt securities available-for-sale	17,439,439	19,072,371	17,439,439	19,072,371	(1,632,932)	(8.6%)
Equity investments, held at equity value	-	-	10,664	10,471	193	1.8%
Equity investments	132,539	125,107	26,500	22,842	3,658	16.0%
Receivables from customers	19,766,803	18,795,341	19,849,033	18,860,053	988,980	5.2%
Property and equipment	375,673	332,336	376,775	342,971	33,804	9.9%
Intangible assets	1,351,583	1,349,810	1,352,413	1,350,861	1,552	0.1%
Receivables due to current income tax	-	12,911	667	13,901	(13,234)	(95.2%)
Asset due to deferred income tax	176,979	199,354	175,904	198,383	(22,479)	(11.3%)
Other assets	158,688	165,356	325,448	289,644	35,804	12.4%
Non-current assets available-for-sale	1,928	1,928	1,928	1,928	-	-
Total assets	**42,863,964**	**45,091,648**	**43,037,596**	**45,209,916**	**(2,172,320)**	**(4.8%)**
LIABILITIES						
Liabilities towards banks	1,568,261	2,303,627	1,568,376	2,310,742	(742,366)	(32.1%)
Financial liabilities held for trading	1,351,031	1,305,614	1,353,215	1,305,614	47,601	3.6%
Hedging derivatives	50,191	39,897	50,191	39,897	10,294	25.8%
Liabilities towards customers	32,172,441	34,031,947	32,136,698	33,936,511	(1,799,813)	(5.3%)
Provisions	17,871	22,068	18,300	22,856	(4,556)	(19.9%)
Current income tax liabilities	52,340	-	52,340	-	52,340	-
Other liabilities	777,211	664,569	919,593	803,846	115,747	14.4%
Total liabilities	**35,989,346**	**38,367,722**	**36,098,713**	**38,419,466**	**(2,320,753)**	**(6.0%)**
EQUITY						
Issued capital	522,638	522,638	522,638	522,638	-	-
Supplementary capital	2,944,585	2,944,585	3,003,969	3,003,082	887	-
Revaluation reserve	(9,376)	(215,061)	(9,118)	(214,843)	205,725	(95.8%)
Other reserves	2,879,669	2,867,565	2,895,598	2,885,044	10,554	0.4%
Retained earnings	537,102	604,199	525,796	594,529	(68,733)	(11.6%)
Total equity	**6,874,618**	**6,723,926**	**6,938,883**	**6,790,450**	**148,433**	**2.2%**
Total liabilities and equity	**42,863,964**	**45,091,648**	**43,037,596**	**45,209,916**	**(2,172,320)**	**(4.8%)**

2.2.1 Assets

Gross receivables from clients

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	PLN '000	%
Non-banking financial entities	1,931,845	1,653,137	2,012,490	1,708,064	304,426	17.8%
Non-financial sector entities	11,251,852	10,903,632	11,255,032	10,917,310	337,722	3.1%
Individuals	7,092,086	6,696,898	7,092,665	6,697,209	395,456	5.9%
Public entities	76,626	100,889	76,626	100,889	(24,263)	(24.0%)
Other non-financial sector entities	3	2	3	2	1	50.0%
Total gross receivables from clients	**20,352,412**	**19,354,558**	**20,436,816**	**19,423,474**	**1,013,342**	**5.2%**

Net receivables from clients

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	PLN '000	%
Receivables from financial sector entities	**1,914,372**	**1,635,327**	**1,995,017**	**1,690,254**	**304,763**	**18.0%**
Receivables from non-financial sector entities, including:	**17,852,431**	**17,160,014**	**17,854,016**	**17,169,799**	**684,217**	**4.0%**
Corporate clients*	11,055,884	10,747,898	11,056,890	10,757,372	299,518	2.8%
Individuals, including:	6,796,547	6,412,116	6,797,126	6,412,427	384,699	6.0%
Unhedged liabilities	5,322,620	5,095,954	5,323,199	5,096,265	226,934	4.5%
Mortgage loans	1,473,927	1,316,162	1,473,927	1,316,162	157,765	12.0%
Total net receivables from clients	**19,766,803**	**18,795,341**	**19,849,033**	**18,860,053**	**988,980**	**5.2%**

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

The value of net receivables from clients at the end of 2017 was PLN 19.8 billion, i.e. higher by PLN 1.0 billion (5.2%) compared to the end of 2016. Net receivables from clients account for the largest part of the Group's assets and their share in total assets increased to 46.1% compared to 41.7% at the end of December 2016; this resulted primarily from the increase in lending to non-financial clients (by PLN 0.7 billion, i.e. 4.0%). Receivables from the non-financial sector increased for both consumers (PLN 0.4 billion, i.e. 6.0%, owing to the increase in credit card and mortgage loan balances) and institutional clients (PLN 0.3 billion, i.e. 2.8%, with growth in the global client segment).

Debt securities portfolio of the Bank

PLN '000	As at		Change	
	31.12.2017	31.12.2016	PLN '000	%
Treasury bonds, including:	17,020,453	19,312,519	(2,292,066)	(11.9%)
covered bonds in fair value hedge accounting	2,492,215	4,794,696	(2,302,481)	(48.0%)
Bank bonds	32,577	66,866	(34,289)	(51.3%)
Bills issued by financial entities	130,604	58,299	72,305	124.0%
NBP bills	1,399,713	2,239,715	(840,002)	(37.5%)
Total	**18,583,347**	**21,677,399**	**(3,094,052)**	**(14.3%)**

The volume of the debt securities portfolio decreased by PLN 3.1 billion (i.e. 14.3%) as at the end of 2017. This was the result of a decreased position in Treasury bonds.

2.2.2 Liabilities

Liabilities towards customers

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	PLN '000	%
Deposits of financial sector entities	**4,977,728**	**4,884,985**	**4,853,148**	**4,685,960**	**167,188**	**3.6%**
Deposits of non-financial sector entities, including	**27,003,168**	**29,017,910**	**27,092,005**	**29,121,499**	**(2,029,494)**	**(7.0%)**
Non-financial sector entities	13,415,235	15,359,629	13,403,515	15,371,189	(1,967,674)	(12.8%)
Non-commercial institutions	416,064	564,636	416,064	564,636	(148,572)	(26.3%)
Individuals	10,248,163	9,856,946	10,348,720	9,948,975	399,745	4.0%
Public sector entities	2,923,706	3,236,699	2,923,706	3,236,699	(312,993)	(9.7%)
Other liabilities	**191,545**	**129,052**	**191,545**	**129,052**	**62,493**	**48.4%**
Total liabilities towards customers	**32,172,441**	**34,031,947**	**32,136,698**	**33,936,511**	**(1,799,813)**	**(5.3%)**
Deposits of financial and non-financial sector entities, including:						
Liabilities in PLN	23,799,960	26,485,501	23,764,217	26,390,065	(2,625,848)	(10.0%)
Liabilities in foreign currency	8,180,936	7,417,394	8,180,936	7,417,394	763,542	10.3%
Total deposits of financial and non-financial sector entities	**31,980,896**	**33,902,895**	**31,945,153**	**33,807,459**	**(1,862,306)**	**(5.5%)**

In 2017, liabilities to clients constituted the dominant source of financing for the Group's operations and they amounted to 74.7% of the Group's liabilities and equity. As at the end of 2017, liabilities to clients amounted to PLN 32.1 billion and were PLN 1.8 billion (5.3%) lower compared to the end of 2016, which resulted from the high baseline level at the end of 2016, mainly consisting of time deposits from institutional clients, including budgetary units. At the same time, consumer deposits rose by PLN 0.4 billion (i.e. 4.0%), with the increase primarily concerning the current account area.

2.2.3 Source and use of funds

PLN '000	Bank		Capital Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Source of funds				
Funds of banks	1,568,261	2,303,627	1,568,376	2,310,742
Funds of customers	32,172,441	34,031,947	32,136,698	33,936,511
Own funds with net income	6,874,618	6,723,926	6,938,883	6,790,450
Other funds	2,248,644	2,032,148	2,393,639	2,172,213
Total source of funds	**42,863,964**	**45,091,648**	**43,037,596**	**45,209,916**
Use of funds				
Receivables from banks	836,166	586,973	836,774	587,087
Receivables from customers	19,766,803	18,795,341	19,849,033	18,860,053
Securities, shares and other financial assets	19,734,018	22,969,640	19,656,528	22,887,089
Other uses of funds	2,526,977	2,739,694	2,695,261	2,875,687
Total use of funds	**42,863,964**	**45,091,648**	**43,037,596**	**45,209,916**

2.3 Equity and the capital adequacy ratio

In 2017, equity increased by PLN 214.4 million or 3.5% compared to the end of 2016. The increase mostly involved the revaluation reserve (by PLN 205.7 million).

Group's equity*

PLN '000	As at		Change	
	31.12.2017	31.12.2016	PLN '000	%
Issued capital	522,638	522,638	-	-
Supplementary capital	3,003,969	3,003,082	887	0.0%
Other reserves	2,356,109	2,356,107	2	0.0%
Revaluation reserve	(9,118)	(214,843)	205,725	(95.8%)
General risk reserve	540,200	529,000	11,200	2.1%
Other equity	(10,481)	(7,114)	(3,367)	47.3%
Total equity	**6,403,317**	**6,188,870**	**214,447**	**3.5%**

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

The capitals are fully sufficient to ensure the 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 the calculation of the capital adequacy ratio based on the separate and consolidated financial statements of the Bank and of the Group.

Group's capital adequacy ratio*

		Bank		Capital Group	
PLN '000		31.12.2017	31.12.2016	31.12.2017	31.12.2016
I	**Common Equity Tier 1 Capital**	**4,916,526**	**4,727,393**	**4,981,895**	**4,796,869**
II	**Total capital requirements, of which:**	**2,237,431**	**2,204,888**	**2,230,567**	**2,199,922**
	credit risk capital requirements (II*8%)	1,759,541	1,698,683	1,749,046	1,687,217
	counterparty risk capital requirements	57,098	65,487	57,819	65,908
	Credit valuation correction capital requirements	49,033	63,927	49,033	63,927
	excess concentration and large exposures risks capital requirements	5,353	3,176	3,746	1,792
	total market risk capital requirements	81,813	74,245	82,411	74,357
	operational risk capital requirements	284,593	299,370	288,512	306,721
	Common Equity Tier 1 Capital ratio	**17.6%**	**17.2%**	**17.9%**	**17.4%**

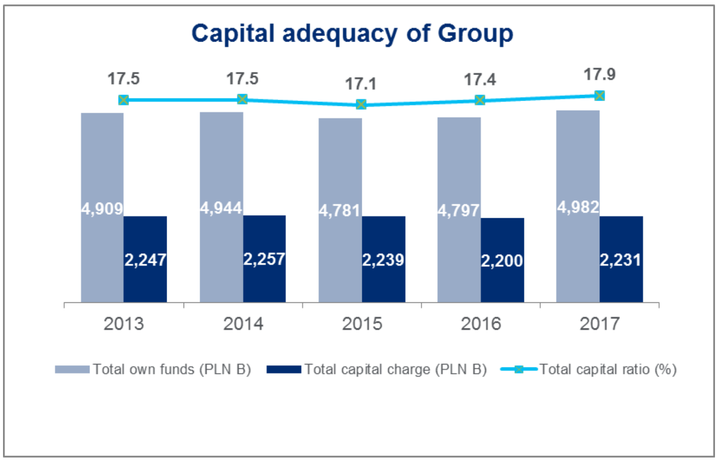
** Capital Adequacy Ratio calculated according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.*

In 2017, the Group's capital adequacy level remained safe and significantly above supervisory limits.

As at 31 December 2017, the Group's capital adequacy ratio increased by 0.42 p.p. compared to 31 December 2016, reaching 17.9%. This enables the Group to further grow its lending.

The increase in the capital adequacy ratio in 2017 was caused by the increase in own funds by ca. PLN 185 million, mainly resulting from the higher revaluation reserve.

On the other hand, the 2017 increase in capital requirement by ca. PLN 31 million compared to the previous year stemmed mainly from the raised capital requirement for credit risk rising from growing lending volumes.



2014–2017 – the Capital Adequacy Ratio was calculated according to the rules stated in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 ("CRR").
2013 – the Capital Adequacy Ratio was calculated according to the rules stated in Resolution No 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 regarding the scope and detailed rules for the calculation of capital requirements against individual risks.

VI. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2017

1. Lending and other risk exposures

1.1 Lending

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

In 2017, the Group focused its credit risk management activities on:

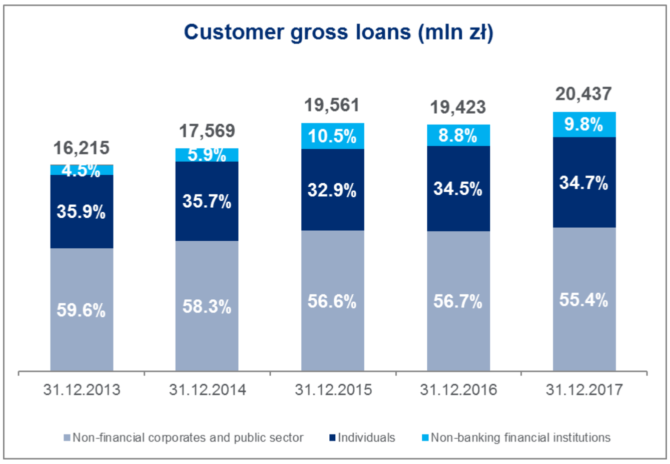
- supporting the growth of assets;
- optimization of the lending process and adjustment of the Group's lending offer to the market conditions;
- maintaining the high quality of the loan portfolio;
- intensification of debt collection activities for the portfolio of retail credit exposures;
- efficient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

Gross loans to customers of the Group

PLN '000	As at		Change	
	31.12.2017	**31.12.2016**	**PLN '000**	**%**
Loans in PLN	18,059,110	16,520,674	1,538,436	9.3%
Loans in foreign currency	2,377,706	2,902,800	(525,094)	(18.1%)
Total	**20,436,816**	**19,423,474**	**1,013,342**	**5.2%**
Loans to non-financial sector entities	18,424,326	17,715,410	708,916	4.0%
Loans to financial sector entities	2,012,490	1,708,064	304,426	17.8%
Total	**20,436,816**	**19,423,474**	**1,013,342**	**5.2%**
Non-bank financial entities	2,012,490	1,708,064	304,426	17.8%
Non-financial sector entities	11,255,032	10,917,310	337,722	3.1%
Individuals	7,092,665	6,697,209	395,456	5.9%

PLN '000	As at		Change	
	31.12.2017	**31.12.2016**	**PLN '000**	**%**
Public sector entities	76,626	100,889	(24,263)	(24.0%)
Non-commercial institutions	3	2	1	50.0%
Total	**20,436,816**	**19,423,474**	**1,013,342**	**5.2%**

As at 31 December 2017, gross credit exposure to clients amounted to PLN 20,436.8 million, representing an increase of 5.2% compared to 31 December 2016. The largest part of the portfolio of receivables from clients represents loans to non-financial sector entities (55.4%), which increased by 3.1% in 2017. Compared to 2016, receivables from individual clients increased by 5.9% and their share in total gross loan receivables amounted to 34.7%.



The share of foreign currency loans, which in December 2016 stood at 14.9%, decreased to 11.6% by December 2017. It should be stressed that the Group does not grant foreign currency loans to individual clients but only to business entities who have foreign currency cash flows or to entities which, in the Group's opinion, are able to predict or absorb the foreign exchange risk without a significant threat to their financial position.

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

Concentration of exposure to customers of the Group

PLN'000	31.12.2017			31.12.2016		
	Balance sheet exposure*	**Granted financial and guarantee liabilities**	**Total exposure**	**Balance sheet exposure***	**Granted financial and guarantee liabilities**	**Total exposure**
CLIENT 1	1,000,000	-	1,000,000	1,000,000	-	1,000,000
GROUP 2	828,101	115,658	943,759	431,855	156,716	588,571
GROUP 3	261,317	574,317	835,634	115,751	763,725	879,476
CLIENT 4	191,400	558,600	750,000	316,900	433,100	750,000
CLIENT 5	251,522	475,980	727,502	564,798	500,185	1,064,983
GROUP 6	557,053	83,530	640,583	216,836	85,968	302,804
GROUP 7	18	618,348	618,366	14	641,332	641,346
GROUP 8	396,000	205,185	601,185	396,000	205,445	601,445
CLIENT 9	600,000	-	600,000	600,000	-	600,000
GROUP 10	74,439	495,376	569,815	187,415	323,310	510,725
GROUP 11	-	-	-	531,149	53,370	584,519
Total	**4,159,850**	**3,126,994**	**7,286,844**	**4,360,718**	**3,163,151**	**7,523,869**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries of the Group*

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2017		31.12.2016	
	PLN'000	**%**	**PLN'000**	**%**
Wholesale trade, excluding trade in vehicles	4,458,076	18,3%	4,122,906	17,3%
Financial intermediation, excluding insurance and pension funds	3,039,423	12,5%	2,492,605	10,5%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,645,822	10,8%	2,526,268	10,6%
Production of food and beverages	1,071,761	4,4%	1,169,614	4,9%
Production and processing of coke and petroleum products	884,023	3,6%	936,473	3,9%
Retail trade, excluding retail trade in vehicles	825,311	3,4%	1,313,366	5,5%
Wholesale and retail trade, excluding of retail trade in motor vehicles, repair of motor vehicles	739,417	3,0%	582,693	2,5%
Metal ore mining	727,502	3,0%	1,064,982	4,5%
Production of metal goods, excluding machines and equipment	657,375	2,7%	615,380	2,6%
Production of motor vehicles, trailers and semi-trailers, excluding motorcycles	633,978	2,6%	512,187	2,1%
10 business sectors	**15,682,688**	**64,3%**	**15,336,474**	**64,4%**

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2017		31.12.2016	
Other sectors	**8,709,221**	**35,7%**	**8,480,894**	**35,6%**
Total	**24,391,909**	**100,00%**	**23,817,368**	**100,00%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks), based on NACE Revision 2.*

1.2 Loan portfolio quality

All of the Group's receivables are attributed to two portfolios: the portfolio of impaired receivables and the portfolio of non-impaired receivables (IBNR). In the impaired portfolio, classifiable exposures that are considered significant are assessed individually while exposures that are not individually significant are collectively tested for impairment.

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

	As at		Change	
	31.12.2017	31.12.2016	PLN '000	%
With not recognized credit losses, including:	19 714 214	18 790 328	923 886	4.9%
non-financial sector entities	17 718 859	17 099 400	619 459	3.6%
institutional clients*	10 946 509	10 719 577	226 932	2.1%
individual clients	6 772 350	6 379 823	392 527	6.2%
With recognized credit losses, including:	660 094	564 597	95 497	16.9%
non-financial sector entities	642 958	547 461	95 497	17.4%
institutional clients*	322 643	230 075	92 568	40.2%
individual clients	320 315	317 386	2 929	0.9%
Dues related to matured derivative transactions	62 508	68 549	(6 041)	(8.8%)
Total loans to customers, gross, including:	**20 436 816**	**19 423 474**	**1 013 342**	**5.2%**
non-financial sector entities	18 361 818	17 646 861	714 957	4.1%
institutional clients*	11 269 153	10 949 652	319 501	2.9%
individual clients	7 092 665	6 697 209	395 456	5.9%
Impairment, including:	**(587 783)**	**(563 421)**	**(24 362)**	**4.3%**
dues related to matured derivative transactions	(54 295)	(60 057)	5 762	(9.6%)
Total loans to customers, net	**19 849 033**	**18 860 053**	**988 980**	**5.2%**
Provision coverage ratio**	**80.80%**	**89.20%**		
institutional clients*	68.30%	87.30%		
individuals	92.30%	89.70%		
Non-performing loans ratio (NPL)	**3.2%**	**2.9%**		

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

In comparison with 2016, the value of impaired loans increased by PLN 95.5 million (i.e. 16.9%) as a result of the deterioration in the quality of the institutional clients' portfolio, which was caused by the financial difficulties experienced by a few clients from the Commercial Bank segment. The Bank sees no industry concentrations which could cause an uncontrolled increase in the NPL portfolio in the future. In 2017, the ratio of non-performing loans (NPL) increased from 2.9% to 3.2% but still remained well below the sector average.

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

As at 31 December 2017 the impairment of the portfolio was PLN 587.8 million, which represented an increase by 4.3% from PLN 563.4 million at the end of December 2016. The increase in impairment concerned mainly those clients whom the Bank treats collectively as a portfolio (by PLN 16.6 million, i.e. 7.3%).The provision coverage ratio remains stable at 2.9%.

Impairment of the customer loan portfolio

PLN '000	As at		Change	
	31.12.2017	31.12.2016	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	79,368	79,735	(367)	(0.5%)
Impairment of receivables	508,415	483,686	24,729	5.1%
accounted for individually	263,692	255,605	8,087	3.2%

PLN '000	As at		Change	
	31.12.2017	**31.12.2016**	**PLN '000**	**%**
accounted for collectively	244,723	228,081	16,642	7.3%
Total impairment	**587,783**	**563,421**	**24,362**	**4.3%**
Provision coverage ratio (total loans)	2.9%	2.9%		

1.3 Off-balance-sheet commitments

As at 31 December 2017, exposure from conditional commitments granted by the Group amounted to PLN 16,816.5 million, representing a decrease of 0.4% compared to 31 December 2016. The largest share in the total conditional commitments granted are still promised loan commitments (i.e. 85%), which increased by PLN 961,1 million. Promised loan commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities.

Contingent off-balance sheet liabilities granted

PLN '000	As at		Change	
	31.12.2017	**31.12.2016**	**PLN '000**	**%**
Guarantees	2,312,023	2,131,868	180,155	8.5%
Letters of credit issued	148,607	144,829	3,778	2.6%
Third-party confirmed letters of credit	19,376	1,023	18,353	-
Committed loans	14,292,534	13,331,401	961,133	7.2%
Underwriting other issuers' securities issues	-	1,246,100	(1,246,100)	(100.0%)
Other	43,942	33,944	9,998	29.5%
Total	**16,816,482**	**16,889,165**	**(72,683)**	**(0.4%)**
Provisions for off-balance sheet liabilities	12,789	7,215	5,574	77.3%
Provision coverage ratio	0.08%	0.04%		

As at 31 December 2017, the total amount of collateral established on accounts or on assets of the Bank's borrowers amounted to PLN 3,762 million, whereas as at 31 December 2016 it stood at PLN 3,993 million.

2. External funding

The total external funding of the Bank (from both clients and banks) stood at PLN 33.7 billion as at the end of 2017 and was PLN 2.5 billion (i.e. 7.0%) lower than at the end of 2016. The largest share of changes in external financing of the Bank's operations was attributable to funds obtained from clients, which decreased by PLN 1.8 billion (i.e. 5.5%) due to the high baseline level at the end of 2016, mainly consisting of corporate time deposits.

Group's funding from banks

PLN '000	As at		Change	
	31.12.2017	**31.12.2016**	**PLN '000**	**%**
Current account	1,108,689	1,466,809	(358,120)	(24.4%)
Term deposits	248,373	173,422	74,951	43.2%
Loans and advances received	36,467	128,026	(91,559)	(71.5%)
Liabilities from securities sold under agreement to repurchase	9,085	212,372	(203,287)	(95.7%)
Other liabilities, including:	165,762	330,113	(164,351)	(49.8%)
margin deposits	163,769	330,099	(166,330)	(50.4%)
Total funding from banks	**1,568,376**	**2,310,742**	**(742,366)**	**(32.1%)**

Group's funding from customers

PLN '000	As at		Change	
	31.12.2017	**31.12.2016**	**PLN '000**	**%**
Deposits of financial sector entities				
Current accounts	531,361	671,625	(140,264)	(20.9%)
Term deposits	4,321,787	4,014,335	307,452	7.7%
	4,853,148	**4,685,960**	**167,188**	**3.6%**
Deposits of non-financial sector entities				
Current accounts, including:	22,129,625	22,301,469	(171,844)	(0.8%)
Corporate clients	10,766,475	10,895,348	(128,873)	(1.2%)
Individuals	8,536,410	8,280,082	256,328	3.1%

PLN '000	As at		Change	
	31.12.2017	31.12.2016	PLN '000	%
Public entities	2,826,740	3,126,039	(299,299)	(9.6%)
Term deposits, including:	4,962,380	6,820,030	(1,857,650)	(27.2%)
Corporate clients	3,053,104	5,040,477	(1,987,373)	(39.4%)
Individuals	1,812,310	1,668,893	143,417	8.6%
Public entities	96,966	110,660	(13,694)	(12.4%)
	27,092,005	**29,121,499**	**(2,029,494)**	**(7.0%)**
Total deposits	**31,945,153**	**33,807,459**	**(1,862,306)**	**(5.5%)**
Other liabilities				
Other liabilities, including:	191,545	129,052	62,493	48.4%
Cash collateral	112,611	80,622	31,989	39.7%
Margin deposits	40,671	11,548	29,123	252.2%
	191,545	**129,052**	**62,493**	**48.4%**
Total funding from customers	**32,136,698**	**33,936,511**	**(1,799,813)**	**(5.3%)**

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 2017

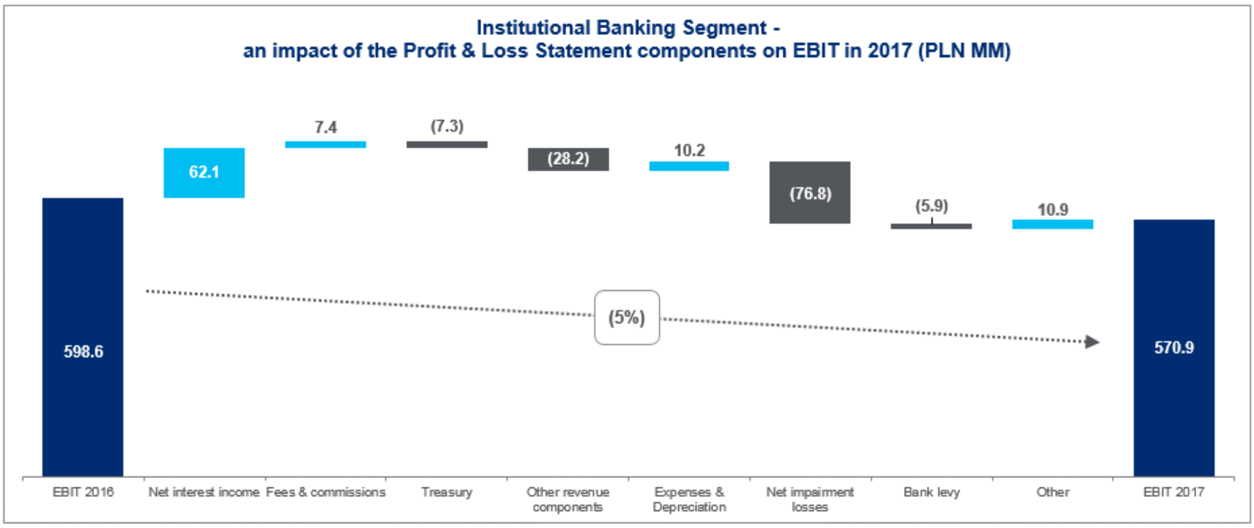
in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	3.09	1.34	2.66	8.44	4.00	-
Debt securities	2.16	0.09	2.08	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	0.94	0.19	1.03	0.96	0.10	0.54

As at 31 December 2016

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

4. Institutional Banking Segment

4.1 Summary of segment's results



In 2017, Corporate and Commercial Bank recorded a decline in pre-tax profit of PLN 27.7 million, i.e. 4.6%. The profit before tax of the Corporate and Commercial Bank segment in 2017 compared to the previous year was driven mainly by the following factors:

- Net interest income at PLN 501.7 million as against PLN 439.6 million in 2016 – an increase by PLN 14.1 million which was mainly the consequence of higher net interest income on client activities owing to the positive contribution of lending margins and increased lending volumes.
- Net fee and commission income in the amount of PLN 282.7 million as compared to PLN 275.3 million in 2016, caused, *inter alia*, by an increase in net fee and commission income on brokerage activities as a result of the favorable situation in the financial markets in 2017.
- The result on financial instruments held for trading and on revaluation, which amounted to PLN 346.3 million as against PLN 347.2 million in 2016, and the result on investment debt securities amounting to PLN 35.8 million as against PLN 44.7 million in 2016, i.e. a decrease by PLN 9.0 million;
- The posting of the acquisition of Visa Europe Ltd. by Visa Inc., which resulted in an income of PLN 29.4 million, had affected the result on investment equity instruments available for sale in 2016, while no material non-recurring events took place in 2017;
- Overheads and depreciation and amortization of PLN (503.8) million against PLN (514.0) million in 2016 – a decrease by 10.2 million, largely as a result of declining personnel costs (reduced headcount).
- An increase in the result on the disposal of other assets by PLN 10.5 million in 2017 in connection with the sale of perpetual usufruct right to real estate;
- An increase of net write-downs (PLN 51.4 million of net impairment write-downs in 2017 as against PLN 25.5 million in write-down reversals in 2016), mainly as a result of the establishment of new loan provisions, especially in connection with the portfolio of clients assessed on an individual basis in the Commercial Banking segment.

4.2 Institutional Bank

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

At the end of 2017, the number of institutional clients (including strategic, global and corporate banking clients) amounted to 6,200, a decline of 1% compared to 2016 when the number of clients was slightly above 6,200. As part of the Commercial Bank (small and medium businesses, large enterprises and the public sector) the Group provided services to 3,600 clients as at the end of 2017 (which means a decrease of 5% as compared to 3,800 clients at the end of 2016).

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

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

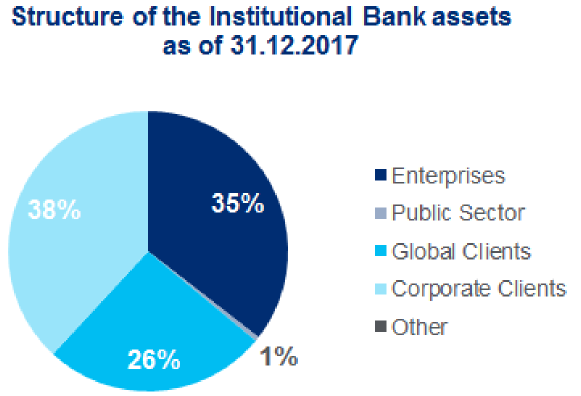
Assets*

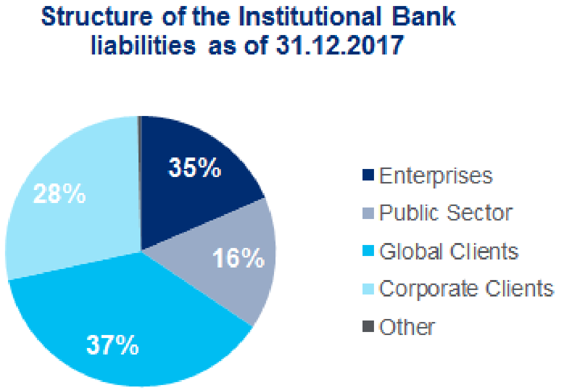
PLN million	31.12.2017	31.12.2016	Change	
			PLN million	%
Enterprises*, including:	4,494	4,669	(175)	(4%)
SMEs	1,671	1,873	(202)	(11%)
Large enterprises	2,823	2,796	27	1%
Public Sector	66	92	(26)	(28%)
Global Clients	3,271	2,389	882	37%
Corporate Clients	4,819	5,016	(197)	(4%)
Other**	2	7	(5)	(71%)
Total Institutional Bank	**12,652**	**12,173**	**479**	**4%**

Liabilities

PLN million	31.12.2017	31.12.2016	Change	
			PLN million	%
Enterprises*, including:	3,865	3,876	(11)	(0%)
SMEs	2,129	2,428	(299)	(12%)
Large enterprises	1,736	1,448	288	20%
Public Sector	3,313	3,823	(510)	(13%)
Global Clients	7,745	9,031	(1,286)	(14%)
Corporate Clients	5,856	6,225	(369)	(6%)
Other**	71	86	(15)	(17%)
Total Institutional Bank	**20,850**	**23,041**	**(2,191)**	**(10%)**

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).*
**** 'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o., who are not clients of the Bank.*





<u>Key transactions and successes of the Institutional Bank in 2017:</u>

- In 2017, developing its cooperation with private equity funds in Poland, the Bank successfully completed significant transactions related to leveraged financing of M&A deals, including the following:
  - in February 2017, Citi Handlowy arranged (as Mandated Lead Arranger and Underwriter) guaranteed financing amounting to PLN 2.7 billion, enabling one of the largest private equity funds to sign an agreement concerning the acquisition of 100% of shares in the largest convenience store chain in Poland. In April 2017, the funds obtained were used to finance the transaction. The provision of financing included the syndication and distribution of part of the loan to other local and regional as well as Chinese banks;
  - in September 2017, Bank Handlowy acceded to a PLN 1.9 billion consortium loan agreement with a power industry client from the investment portfolio of a leading private equity fund. The Bank is the Organizer and Original Lender, with total exposure of PLN 250 million.
- In addition, in 2017 the Bank – consistently pursuing its strategy of supporting its clients – also signed:
  - 14 long-term loan agreements where the Bank's share amounted to PLN 2.4 billion;
  - seven overdraft facility, revolving loan and multi-purpose facility agreements for the total amount of PLN 441 million;

  - two syndicate agreements for the issue of 3-year bonds for a total amount of PLN 2.9 billion and one syndicated agreement for a public bond issue amounting to PLN 120 million for a company owned by the State Treasury;
  - two loan commitments amounting to PLN 75 million.
- Owing to its strategy of winning new business and to the support it received from its global network as well as to a set of unique technological solutions, in 2017 the Bank:
  - was selected as the provider of comprehensive banking services or managed to extend its cooperation with clients in 15 cases;
  - was selected to manage municipal accounts for a city with a budget of PLN 1.1 billion.
- At the Bank, 2017 was another year of focus on:
  - promoting its e-commerce solutions by participating in the "E-commerce Standard" conference, the oldest such event in the market, which concentrates on effective online sales of products and services; it also promoted those solutions in a special supplement to the *Forbes* monthly;
  - promoting cooperation and advisory services for Polish companies who wish to expand internationally by participating in the "Select USA" conference held by the Embassy of the United States and in the "Polish-Brazilian Cooperation. Prospects for Expanding in South America" conference held by the *Rzeczpospolita* daily.
- Acquisition of clients: the Commercial Banking segment acquired 223 new clients in 2017, including 46 Large Enterprises, 159 Small and Medium-Sized Enterprises, and 18 Public Sector entities. The Bank acquired 28 client relationships in the Strategic Clients and Global Clients segment.

4.3 Treasury Division Operations

The CitiFx Pulse platform, which has operated in the market since 2005, enjoys our clients' solid trust. This is reflected by the fact that the platform accounts for approximately 80% of all FX transactions. Using the platform, a client can conclude transactions in the self-service model at any time, executing up to 300 transactions at once with a single click. The platform provides the Bank's clients with access to quotes 24 hours a day, providing constant access to market information, enabling currency exposures to be managed, convenient reports to be generated and online transactions to be confirmed. The tool is both innovative and functional and it offers automated FX solutions.

In 2017, the Bank participated in the following transactions in the market of debt securities:

- syndicated issue of PLN 1.5 billion worth of bonds for the European Investment Bank, increasing the volume of the 5-year series to a total of PLN 3.25 billion;
- syndicated issue of PLN 900 million worth of bonds for the European Investment Bank, increasing the volume of the 10-year series to a total of PLN 2 billion;
- syndicated issue of PLN 1.2 billion worth of 3-year bonds for a domestic bank;
- syndicated issue of PLN 750 million worth of bonds for the European Investment Bank, increasing the volume of the 5-year series to a total of PLN 4 billion;
- syndicated issue of PLN 500 million worth of 4-year bonds for a domestic bank;
- involvement in a syndicated issue of PLN 252 million worth of 3-year bonds for a commercial bank.

4.4 Transactional banking

Citi Handlowy is a leading provider of transactional banking services. For the fourth year in a row, the prestigious *Euromoney* magazine has named Citi Handlowy's transactional services the best in Poland. This distinction is awarded based on ratings from clients who have once again indicated that the Bank is the leader in the financial industry.

The current range of transactional products and services on offer includes:

- electronic banking:
- deposits and current accounts;
- liquidity management products;
- cross-border fund transfers;
- card products;
- payment and receivables processing: Direct Debit and SpeedCollect;
- cash products;
- EU-oriented advisory services;
- trade finance products.

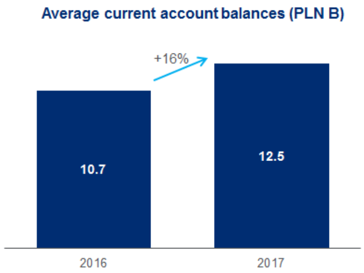
Electronic banking

Keeping up with the development of state-of-the-art banking technologies as well as responding to the complex needs of clients who use electronic and mobile solutions, the CitiDirect BE system was streamlined. The primary focus was on simplifying the creation and authorization of payments, and a new mechanism for handling bulk payments was developed as well. The need to exchange traditional documentation was reduced owing to the introduction of the eWnioski [e-Application] electronic document exchange platform.

In 2017, the Bank processed 26 million electronic transactions. Its participation in the modern electronic banking service market is an important element of its current strategy which aims to provide convenient solutions to clients.

Deposits and current accounts

One of the most important elements of the Bank's strategy in practice is the focus on selling operating accounts to clients and on servicing such accounts. A current account enables clients to access the full range of Citi Handlowy services. The funds accumulated by a client in a current account which are not required to finance day-to-day operations may be invested in time deposits or be left in the current account with an increased interest rate. The Bank also sells, among others, negotiated, automatic and blocked deposits.



Liquidity management products

Liquidity management solutions can reduce the overall debt and its servicing costs while maintaining the entity's ability to meet its liabilities on a current basis. Liquidity management instruments optimize cash flows for a single client or within a group of companies. The Bank enables optimal management of cash surpluses at over-liquid companies and firms with increased demand for capital. Liquidity management products include:

- consolidated accounts;
- actual cash pooling;
- net balance.

Cross-border fund transfers

The Bank boasts a comprehensive and very extensive settlement offering in more than 130 currencies throughout the world. Responding to client needs, the Bank has extended the functionality of its multicurrency account product, adding the ability to receive foreign payments in exotic currencies (e.g. the Chinese yuan, Mexican peso, Indian rupee and Brazilian real). This is a unique solution on the Polish market.

Card products

In 2017, the Bank completed the mass migration of clients to its new card handling system. After the migration, Business Card users obtained access to many unique functionalities such as the ability to generate and change PINs, transaction notifications, mobile access and also the ability to generate reports on the basis of over 600 variables related to the cards themselves and to the transactions conducted using them.

The Bank also launched a service that is the first of its kind in the market. The "Card on the Go" service, which provides comprehensive support during business trips, can be accessed via the kartybiznes.pl website. Its users can gain quick access to many functionalities and information such as:

- scope of insurance cover;
- claim submission instructions;
- card limit change;
- search for the nearest ATM;
- checking foreign exchange rates;
- the ability to cancel a lost card;
- PIN recovery.

Payment and receivables processing: Direct Debit and SpeedCollect

The Bank offers convenient and efficient tools for handling payments and receivables to its clients. These modern solutions have been designed for companies and institutions with multiple recipients of their products and services.

- Direct Debit

This tool makes it possible to efficiently collect receivables from payers while reducing enforcement costs. Citi Handlowy is the market leader in servicing direct debits with the most transactions handled in the market; additionally, as the only bank in Poland, it offers the SMS alert option for payers (as part of the Direct Debit Comfort service).

- SpeedCollect

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of bulk payments. The virtual account functionality allows information which is important for the creditor to be encoded in the account number such as e.g. the number of the counterparty or the number of its own sales unit that accounts for the revenue. The number of SpeedCollect transactions conducted by Citi Handlowy in this market segment remains very high.

Cash products

The Bank provides its clients with comprehensive cash management services. The sealed deposit service may be provided nationwide at more than 1,200 cash centers. Additionally, the Bank provides open deposit services at more than 4,500 locations thanks to its partnership with Poczta Polska S.A.

In 2017, the steps related to deposit preparation, tracking the status of sealed deposits and reporting the funds expected were optimized. In addition to cash deposits, the Bank's clients also use cash withdrawals and money orders. As a result of the Bank's partnership with the national postal operator Poczta Polska S.A., these are available at all branches of Poczta Polska S.A. nationwide.

EU advisory

Under the agreement signed in 2014 with the Kreditanstalt für Wiederaufbau (KfW) bank and using EU funds, the Bank offered to its clients repayable (loans) and non-repayable (grants) financing. The ELENA (European Local Energy Assistance) program supported local and regional authorities and other public entities in facilitating the financing of energy efficiency improvement projects by local authorities. In 2016 and 2017, a project was implemented that involved the thermal efficiency improvement of 17 multi-family residential buildings belonging to a municipality that was a BHW client. The implementation of the project resulted in annual energy savings of 5,326 MWh for the upgraded buildings.

Trade finance products

The numerous trade service products offered by Citi Handlowy include letters of credit, bank guarantees, collection, trade credit, supplier and distributor finance as well as factoring. Compared to the previous year, an increase in assets by 18% was recorded, which means a significant increase in sales volumes in this segment. The Bank maintains its leading position in the supply chain financing area with a market share of around 20 percent. In 2017, an increase in its share in the export letters of credit market (in terms of the number of transactions) by 3 percentage points was observed as well.

To maximize the clients' convenience and security, the Bank launched the eGwarancja [e-Guarantee] solution in April 2017, which makes it possible to secure all liabilities and receivables online.

4.4.1 Custody and depositary services

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

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

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

In the reporting period, the Bank successfully handled the first operations within the framework of a new service related to operating accounts in the client's name with KDPW S.A. (National Depository for Securities), which involved the transfer of instructions received from the client to KDPW S.A. and *vice versa* – settlement confirmations and statements from the entity's accounts opened at KDPW S.A. for the Bank's client. The service is targeted at foreign financial institutions, including without limitation depository and settlement institutions (financial entities with the ICSD status), and includes the handling of securities accounts and omnibus accounts of such entities.

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

The Bank made considerable efforts to adjust its fiduciary activities to the provisions of the directive on markets in financial instruments ("MiFID") currently being implemented whose purpose is to further improve the transparency of investment firm and bank operations and enhance investor protection in the capital market.

As at 31 December 2017, the Bank maintained over 9,200 securities accounts.

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

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

In 2017, the Bank continued its activities aimed at improving the legal regulations concerning the securities market. A representative of the Bank was the Chair of the Bureau of the Council of Depositary Banks at the Polish Bank Association ("Council") for the fifth consecutive term of office. In the reporting period, the Council was involved in the process of improving agreement standards and recommending good practices related to the performance of depositary functions in connection with the performance of investment fund depositary duties in view of the requirements of the EU AIFMD and UCITS V Directives.

The Council was actively involved in the evaluation of other draft legal acts related to operations of domestic depositary banks. Based on the Bank's resources, experience and competences, employees of the Bank in cooperation with the Polish Financial Supervision Authority, KDPW S.A. (National Depository for Securities), KDPW_CCP S.A. (National Depository for Securities – Central Counterparty) and the Warsaw Stock Exchange participated in consultations on the implementation of new solutions in the Polish capital market through working groups established at the Polish Bank Association and also through market working groups. The Council participated in agreeing the plan for launching the projects related to adapting to the provisions of the Central Securities Depository Regulation (CSDR), and analyzed the opportunities for participating in new technology projects based on the distributed ledger concept.

4.5 Brokerage Activity

The Group pursues brokerage activity on the capital market via the Dom Maklerski Banku Handlowego S.A. ("DMBH") brokerage house, which is wholly owned by the Bank. DMBH is an active participant of the Polish capital market as a member of the Warsaw Stock Exchange (WSE) and BondSpot. It also provides brokerage services in foreign markets.

In 2017, DMBH brokered 9.5% of transactions involving shares and allotment certificates during WSE main market sessions (as against 10.3% a year earlier), eventually being ranked second among stock exchange members in this category. The value of session transactions executed via DMBH on the main market on the Warsaw Stock Exchange (WSE) amounted to PLN 44.9 billion and rose by 15.2% in relation to the previous year while trading on the WSE increased by 24.8%.

The decline in DMBH's market share and the loss of its leading position which it had held in the past eight years was associated with a significant change in market structure and an increase in the share of transactions executed by participants for their own account. However, the change mainly results from the operations of foreign brokers, who increased their trading scale on the WSE in 2017 by executing algorithmic and high volume trading operations. DMBH has not been involved in this market segment so far.

In terms of transactions for its clients' account, DMBH remains the leader with a share of 12.1% and its operations remain highly cost-effective.

At the end of June 2017, DMBH was the Market Maker for the shares of 64 companies listed on the Warsaw Stock Exchange (including all covered by the WIG20 blue chip index). That represented 13.3% of all shares traded on the WSE main market.

In the DMBH consumer segment, the strategy of intensifying their cooperation with the Bank was pursued further in 2017. The number of brokerage accounts maintained by DMBH as at the end of 2017 was 13,700 and increased by 10.3% compared to the end of 2016. The number of accounts increased primarily due to a steady growth in the number of brokerage service agreements concerning foreign market services performed via the CitiFX Stocks platform.

2017 also saw increased activity by consumers as regards trading in shares and ETFs listed on major foreign exchanges. Owing to advisory services, which are increasingly popular among CPC clients, revenues from fees in foreign markets supplemented the traditional revenue stream from client activity on the Warsaw Stock Exchange to a significant extent.

Once again, subscriptions for closed-end investment fund certificates and Treasury and corporate bond sales contributed to maintaining record-high results in that segment for DMBH.

In 2017, DMBH carried out the following transactions on the capital market:

- Cyfrowy Polsat – DMBH was the Book Runner in the sale of own shares by EBRD; transaction value was PLN 384 million (the transaction was settled in January);
- Uniwheels AG – DMBH served as the Agent under the tender offer for 100% of shares in Uniwheels AG announced by Superior Industries International Germany AG. The transaction value amounted to PLN 2.7 billion (May 2017);
- Uniwheels AG – DMBH was an intermediary in the tender offer for a 7.7% stake in Uniwheels AG announced by Superior Industries International Germany AG (the transaction was finally settled in August 2017);
- CCC S.A. – DMBH acted as the Global Coordinator and Offeror in the procedure of accelerated sale of newly issued common shares of CCC S.A.; the value of the transaction amounted to PLN 530 million (September 2017).

Summary financial data as at 31 December 2017*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2016
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	433,070	112,254	14,669

**pre-audit data*

4.6 Leasing

In the fourth quarter 2016, a decision was made on the purchase by the Bank of the remaining working lease portfolio from Handlowy Leasing Sp. z o.o. The transaction was executed at the end of the first quarter 2017.

The leasing product continues to be offered by the Bank; however, it is made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group.

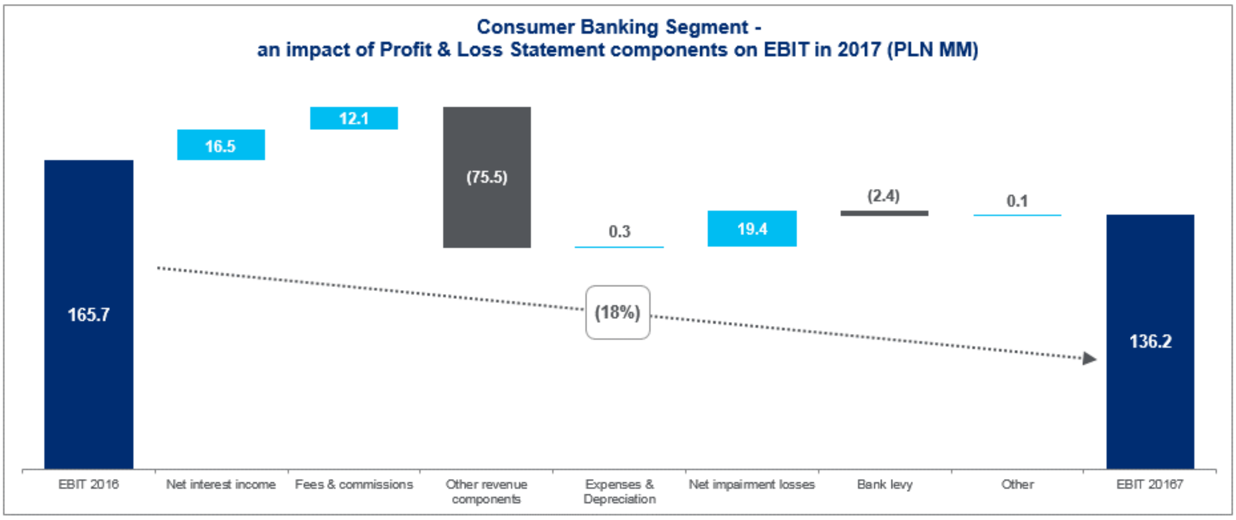
Summary financial data as at 31 December 2017*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2016
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	23,134	22,430	(678)

**pre-audit data*

5. Consumer Banking Segment

5.1 Summary of the segment's results



In 2017, Consumer Bank recorded a decline in pre-tax profit of PLN 29.5 million, i.e. 17.8%. The profit before tax of the Consumer Banking segment in 2017 compared to the previous year was driven mainly by the following factors:

- The increase in interest income as a result of the growing loan portfolio (+6% YoY) and a material increase in deposit balance (4% YoY) combined with a favorable shift in deposit portfolio composition (an increase in current deposits at the expense of time deposits);
- The decrease in net fee and commission income on loan insurance (due to new regulations on group insurance), offset by an increase in income on investment products by 28% YoY.
- The decrease in other income components as a result of the recognition in 2016 of the acquisition of Visa Europe Ltd. by Visa Inc., amounting to PLN 66.5 million in investment equity instruments available for sale;
- A decrease in operating costs as a result of restructuring; a large part of the savings generated was invested in marketing and technology;
- A lower negative result in the net impairment category, i.e. PLN 51.8 million as against PLN 71.2 million in 2016 in connection with the further improvement in portfolio quality, especially with respect to the receivables covered by IBNR provisions.

5.2 Selected business data

	2017	2016	Change PLN '000	%
Number of individual customers	691.7	680.8	10.9	1.6%
Number of current accounts, including:	463.2	457.9	5.3	1.2%
number of operating accounts*	100.9	95.1	5.8	6.1%
Number of operating accounts newly acquired in the period*	43.8	54.6	(10.7)	(19.6%)
Number of savings accounts	144.4	150.1	(5.6)	(3.8%)
Number of credit cards, including:	702.9	698.6	4.3	0.6%

	2017	2016	Change PLN '000	%
Number of debit cards, including:	251.2	248.3	2.9	1.2%

* *In the first quarter of 2017, there was a change in the classification of operating accounts. 2016 was adjusted.*

5.3 Key business achievements

Bank accounts

Current accounts

The total account balance increased by over 12% and exceeded PLN 5.1 billion. The number of personal accounts at the end of 2017 increased to 463,000 (at the end of 2016 it had amounted to 458,000). Of those, 265,000 were Polish zloty accounts, and 197,000 were foreign currency accounts.

Savings accounts

The number of savings accounts as at the end of 2017 decreased to 144,000. The total balance of funds accumulated in them also dropped to PLN 2.7 billion as against 150,000 savings accounts with a total balance of almost PLN 3 billion in the same period last year.

Changes in the offering

In March 2017, the revised Table of Fees and Charges took effect. For holders of CitiKonto personal accounts, charges for debit card issuance and for withdrawals from ATMs other than those owned by Citi Handlowy were increased, among other things. Some fees for transactions conducted with a Relationship Manager at a branch or via CitiPhone were increased as well. For holders of Citi Priority personal accounts, fees for account maintenance were increased and, as in the case of CitiKonto, fees for transactions conducted with a Relationship Manager at a branch or via CitiPhone went up. For holders of Citigold accounts, the Bank also decided to increase the account maintenance fee, while at the same time offering attractive deposits which made it possible for clients to top up the balance to the amount entitling them to free account maintenance. Most clients took advantage of the offer. No new or higher charges were introduced for clients from the Citigold Private Client segment.

The changes introduced are consistent with the Bank's strategy. The new model of fees and commissions encourages clients to tighten their relationship with the Bank so that they satisfy the criteria for Citi Priority or Citigold clients and also to use online banking where most services are offered free of charge.

In 2017, the Bank introduced a number of solutions that have made using its accounts more comfortable and secure. Among other things, it launched the new Citibank® Online banking website together with a number of new functionalities such as debit card cancellation, account closure, the ability to update personal details and new ways of making domestic transfers. The "Foreign Citi Accounts Preview" service was also launched, providing the Bank's clients with information about their bank accounts maintained with branches of foreign banks belonging to Citigroup, Inc. which support this service.

In 2017, the Bank focused on winning new clients in the Citigold, Citigold Private Client and Citi Priority segments. This goal was pursued through promotions for new clients and through advertising in traditional and electronic media as well as acquisition activities via the telephone customer service channel (Tele Gold and Tele Priority). In 2018, the Bank plans to further implement its strategy consisting in increasing the client portfolio in these segments, stressing digital acquisition. The Bank also plans to develop its Citigold recommendation program by strengthening communications via the Citibank Online banking service, and via social media, and by educating Citi Handlowy employees.

Credit cards

At the end of 2017, the number of credit cards amounted to 703,000. The debt balance on credit cards as at the end of 2017 amounted to PLN 2.5 billion, i.e. was 8.1% higher than that reported for the same period in the previous year. As a result, the Bank retained its leading position in the credit card market in terms of the value of credit facilities extended, holding a market share of 25.5% according to figures as at end December 2017.

In 2017, credit card acquisition was at a stable and high level similar to that in the previous year and amounted to around 65,000 cards. This was made possible by the Bank's intense acquisition effort that involved making its credit card offerings more attractive. As a result, in 2017 the Bank was awarded the Golden Banker title for its Citi Simplicity card, which was named the best credit card.

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

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

Credit products

Cash advances and instalment products to credit card account

The balance of cash products at the end of 2017 amounted to PLN 2.7 billion, an annual increase of 1.6%. Total sales of cash products reached PLN 1.3 billion in 2017.

In 2017, the Bank continued its focus on remote sales (e.g. via its online platform and on the phone) and also on direct sales processes, among others at modern Smart branches and at Smart Mini outlets.

Mortgage products

The mortgage loan portfolio stood at PLN 1.5 billion at the end of 2017, which represented an increase of 12.0% compared to the end of 2016. Sales of mortgage products in 2017 amounted to PLN 318 million.

Investment and insurance products

Investment products

At the end of 2017, the total value of investment products (including investment-type insurance products, net of bi-currency investments) purchased by consumers via the Bank was 17% higher than at the end of the same period of 2016.

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

Within the scope of its cooperation with DMBH, the Bank granted its clients access to 29 issues of investment certificates of closed-end investment funds.

As regards structured products, the Bank offered 118 structured bond subscriptions denominated in PLN, USD, GBP and EUR in the entire 2017.

As concerns open-end investment funds, in 2017 the Bank introduced six bond funds into its range of products on offer.

Insurance products

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

A new product has been introduced into the Bank's range within the framework of its cooperation with Towarzystwo Ubezpieczeń na Życie WARTA S.A.: life insurance combined with accident insurance with a sum insured of up to PLN 1 million, with flexible coverage scopes and levels for different client segments.

6. Development of distribution channels

6.1 Direct acquisition

In 2017, the Universal Bankers retail distribution channel continued to pursue its strategy of winning new clients by focusing on three basic products: credit cards, Citi Priority accounts and cash loans. As in previous years, the mobile sales force, which includes more than 80 Relationship Managers, operated nationwide from local offices in six cities.

Staying true to the model of the channel's operation, mobile Relationship Managers were even closer to target clients with relocations of Smart Mini sales points between shopping malls in accordance with the assumption that sales potential had to be periodically refreshed while keeping the formula cost-effective and maintaining presence at both corporations and public administration bodies.

Universal Bankers also supported the celebrations of the 20th anniversary of the Citibank Credit Card by holding a roadshow during holidays: they conducted sales during social and cultural events such as performances and air shows, automotive fairs and sports events in ten cities. In addition to acquisition activities, the initiative, which was supported by an interactive game zone, free Wi-Fi access, a laser show and 3D video mapping, focused on building the image of Citi Handlowy as an innovative institution which promotes modern solutions and is geared towards the client's needs.

The mobile channel has been the largest beneficiary of the new sales application which was launched on tablets in May 2017. Owing to its entirely new user interface, the application is simple and easy to use compared with the solution it replaced. The new tool enables cash loans to be sold outside branches, and owing to its full integration with banking systems, it is also possible to process credit card applications in an entirely automatic manner.

Modern technological solutions and consistently pursued goals have enabled high sales efficiency in this channel, which is focused on acquiring new clients.

6.2 Branch network

Construction of a Smart Bank Ecosystem

In the branch network of Citi Handlowy, 2017 was the period when the Bank's strategy was further implemented and consolidated around the Smart Bank Ecosystem. Blue segment Relationship Managers were withdrawn from Citigold branches, which improved their operational efficiency, and by the end of the period they served clients by operating in 16 branches in the ten largest cities where the Bank continues to see the greatest potential in those client segments on which it bases its consumer banking development strategy.

In the last year, the Smart Mini sales outlets, which had been launched in 2016 and manned by Universal Bankers Relationship Managers, served as tools for building the Bank's image and the perception of its scale and also for supporting acquisition through handling markets whose sales potential does not justify investments in brick-and-mortar branches. In 2017, the Smart Mini format was supplemented by the first entirely mobile point designed for serving mass events and for the organization of other marketing and sales activities. The opening hours of Smart Mini outlets are the same as the opening hours of shopping malls or the duration of outdoor events.

Customer service both at Smart Branches and Smart Mini outlets involves the use of modern banking systems and the new sales application designed for tablets. A client who applies for credit products (a credit card or a cash loan) for the first time has access to a unified user interface irrespective of the point of contact, i.e. online, at a branch or on a tablet. The tool also makes it possible to safely interrupt the application process at any time and to resume it without losing data, also when the acquisition channel is changed. The solution adopted allows for the complete elimination of paper documents from the sales process, leveraging electronic signatures and text message and e-mail communication.

Number of branches (at the end of period)

	December 31, 2017	December 31, 2016	Change
Number of branches (at the end of period):	**26**	**25**	**1**
- HUB Gold	8	7	1
- Smart Hub Gold	2	2	-
- Investment Center	1	1	-
- Smart Branches	14	14	-
- Corporation Branches	1	1	-
Other POS:			
Smart Mini	4	3	1

6.3 Internet and telephone banking

Online banking

The number of active Citibank Online users, i.e. those who logged in to the online or mobile banking service using their browser or used the Citi Mobile app at least once every 30 days amounted to 342,000 at the end of 2017, representing an increase of over 6,000 in relation to the corresponding period of 2016. The share of active Citibank Online users in the total portfolio of the Bank's clients amounted to 50.03% at the end of 2017.

As at the end of 2017, digital users (i.e. those who used Citibank Online or Citi Mobile services on various devices at least once a month) accounted for 72.7% of all clients who executed transactions, which constituted an increase of almost one percentage point compared to the same period of 2016.

In February 2017, the Bank made a new Citibank Online transaction service available to consumers. In line with previous announcements, the platform was built using the RWD (Responsive Web Design) technology, which allows clients to access the full functionality of the Citibank Online service on any device.

After three months of parallel operation of the old and new services, the Bank decided to decommission the old system. Since August, micro-enterprise clients have also been granted access to the new platform.

The Bank added new functionalities at quarterly intervals and by the end of 2017, there were more than 300 of them, including, *inter alia*, full credit card and hire purchase product management, full transactional functionalities associated with personal accounts and comprehensive visibility of investment and insurance products. The new Investment Panel makes it possible to monitor the current status of the client's investment portfolio and its history and also makes access to key functions related to saving and investing easier. Other functions in this area (such as profiling and transactions) are to be launched in the first quarter of 2018.

The new Citibank Online platform has also been a success with respect to the sale of hire purchase products. Contextual offerings which addressed the clients' needs made it possible to increase the volume of credit product sales via this channel by 134% YoY.

At the end of June 2017, Bank Handlowy launched the "SPEED" application, which enables the sale of cash loans and credit cards. While clients see the new electronic application form, under the surface there have also been numerous changes to the processes and tools related to three channels – iPad, online and Workbench (available at SMART branches).

Thanks to the introduction of the new application processing tool, client authentication occurs in real time, Relationship Managers may engage in price negotiations and the preliminary credit decision is issued instantly. SPEED is also a truly digital process, which eliminates paper documents and enables comprehensive self-service in a simple and flexible online process.

Last year, credit card acquisition through online campaigns was the source of the largest number of new clients. The number of cards sold increased by 20% compared to the previous year and accounted for 40% of total sales at the Bank.

Mobile banking

At the end of 2017 the number of active mobile banking users, i.e. those who accessed mobile banking at least once every 30 days via the app or Citibank Online using responsive technology, exceeded 126,000, an increase of more than 53% compared to December 2016. The share of active users of mobile banking in the group of clients who executed transactions stood at over 28%, which represents an increase of 10 p.p. over the same period of 2016.

Social media

In 2017, the Bank continued its efforts in the social media, which remained an important channel for contacting its clients. In everyday communications, the Bank focused not just on providing information about current offerings or promotions, but also invited its fans to participate in unusual events and competitions; the posts shared by the Bank reached almost 1 million Facebook users each month.

In 2017, Facebook was among the key tools for handling client queries and all fan engagement indicators improved significantly: the average response time to inquiries was 7 minutes. The Bank has more than 144,000 fans.

7. Changes in IT technologies

In 2017, the Bank's strategic goal in the IT area remained making the Bank ever more competitive by providing the highest-quality services and products with broad support for innovative solutions, digitization and automation while optimizing costs at the same time. In line with market trends, the Bank's technology is largely based on centralized services and outsourcing. Service centralization processes allow the Bank to achieve savings, improve quality and standardize processes as well as ensuring high control and information security levels. Since the Bank's strategy emphasizes the promotion of electronic distribution channels and basing banking products on the latest technologies, including online and mobile solutions, Technology focuses on developing and implementing solutions that further these business goals.

IT processes at the Bank operate according to international standards, as recognized in the first quarter of 2017 by the positive outcome of the ISO 20000 (IT service management), ISO 27001 (information security management) and ISO22301 (business continuity) surveillance audits.

The most important modifications and improvements introduced in 2017 include:

- **in the Institutional Bank area:**
  - **the deployment of a new platform for handling commercial cards for institutional clients.** The new platform was deployed in order to enable the further development of card products for enterprises; as a result of this deployment, corporate clients gained additional opportunities to use chip cards and to access data via digital front-end systems. As a result of the new platform having been launched, the Bank expects to increase client acquisition in the corporate card area;
  - **the implementation of solutions that further digitize communications between the Bank and its clients.** New solutions are implemented to increase the digitization of communication between clients and the Bank. As a result of the changes, clients will be able to submit documents to the Bank and download them using digital channels. The Bank expects that the changes implemented will increase the level of digitization and reduce the number of hard copy documents in its transactions with clients.
- **in the Consumer Bank area:**
  - **the implementation and launch of a new electronic banking platform for consumers.** The new platform was implemented as a continuation of the Bank's Online Strategy in order to improve client experience related to electronic channels, increase the acquisition of credit products via such channels and enable changes to be introduced more rapidly to the new platform compared to the previous one. Within the new platform, clients have also gained access to new functionalities, including related to the handling of investment products, and responsive design allows the content displayed to be adjusted to each individual device. The expected result of the change is an improvement in customer satisfaction as measured using the NPS and an increase in the acquisition of the Bank's products via the online channel;
  - **Q22 – the opening of a new flagship branch for Gold segment consumers.** For affluent clients, Citigold branches remain an important contact point with the Bank. In order to deepen the Bank's relationships with affluent clients and improve their experience, a strategic decision was made to transform the Gold network in Warsaw. This resulted in a branch being opened at the most prestigious location in the capital, i.e. on the 31st floor of the Q22 building. The new location offers state-of-the-art solutions to clients, leveraging technology (iPads) and wireless connectivity. As a result of the changes, an increase in the sales of investment products and the acquisition of new affluent clients are expected.
- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
  - the adaptation of the Bank's IT systems to the requirements of the new Regulation on markets in financial instruments (MiFID II) – the introduction of changes to the Bank's systems was necessitated by the entry of the EU MiFID 2/MIFIR into force on 3 January 2018; as a result of implementing those changes, the Bank achieved compliance with the Regulation;
  - the adaptation of the Bank's IT systems to regulations that concern counteracting the use of the financial sector for fiscal fraud – the introduction of changes to the Bank's systems was necessitated by the planned entry of Act on Counteracting the Use of the Banking Sector for Banking Fraud into force; as a result of implementing those changes, the Bank achieved compliance with the Act.
- **in the area of the Bank's IT infrastructure and information security:**
  - the implementation of improvements to make using the Citibank Online platform more secure, including the introduction of additional server-level checks to protect against potential attacks and tampering with the defined beneficiaries' details;
  - the introduction of improvements to mobile banking for consumers, which minimizes the applications' vulnerability to fraudulent transactions.

Technology units proactively develop and improve their service portfolio to fully meet the Bank's current and future business needs. They propose and provide to their business partners optimal technological solutions which make it possible to achieve competitive advantage. Technology units actively support initiatives aimed at the broader use of information technologies that automate the Bank's processes and increase the digitization of services.

Information on pending (unfinished) initiatives and system modifications impacting the Bank's activity in the coming periods is presented below:

- **in the Institutional Bank area:**
  - the implementation of systems that support the work of the Financial Markets Sub-Sector in the derivatives area; the new platform is being implemented in order to leverage more advanced product solutions offered by the Citi group and to pursue the product solution consolidation strategy; as a result of the implementation, the Bank expects to increase the efficiency and automation levels of derivative services;
  - the implementation of solutions which automate the Bank's operational processes. The deployment of the business process automation platform is meant to drive the efficiency of the back-office processes conducted at the Bank; as a result of the implementation, the Bank expects to make back-office processes more efficient and automated.
- **in the Consumer Bank area:**
  - **the launch of Google Pay for MasterCard debit and credit cards.** Online banking and mobile banking are the two fastest growing areas of the cashless payment market. Poland is among the markets where mobile payments are the most widespread, have immense potential and the number of virtual cards is surging. This is facilitated by the fact that almost 100% of terminals already support contactless payments, and such transactions account for more than 60% of the total. For this reason, the Bank decided to implement the modern Google Pay solution, which allows clients to make contactless payments via smartphones without using a physical card in a quick, easy and convenient manner;
  - **the introduction of instant KIR (National Clearing House) transfers for consumers.** The introduction of a new innovative method for executing instant transfers for consumers and microentrepreneurs; the transfers are effected in less than 30 seconds while maintaining consistently high transaction security standards. The purpose is to improve customer experience as measured by the NPS and grow revenue as a result of the expected increase in the total number of transactions executed.
- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
  - **continuing to adapt the Bank's IT systems to regulations that concern counteracting the use of the financial sector for fiscal fraud.** The introduction of changes to the Bank's systems is necessitated by the planned entry of Act on Split Payment into force in July 2018; as a result of implementing these changes, the Bank will achieve compliance with the Act;
  - **adapting the Bank's IT systems to General Data Protection Regulation (GDPR) requirements.** The introduction of changes to the Bank's systems is necessitated by the planned entry of the new General Data Protection Regulation in May 2018; as a result of implementing these changes, the Bank will achieve compliance with the Regulation;
  - **adapting the Bank's IT systems to the Payment Services Directive (PSD2).** The introduction of changes to the Bank's systems is necessitated by the planned entry of the new EU PSD2, which concerns payment services; as a result of implementing these changes, the Bank will achieve compliance with the Directive.
- **in the area of the Bank's ICT infrastructure and information security:**
  - the implementation of further new-generation security mechanisms in banking systems.

8. Equity investments

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In 2017, the Bank continued to pursue its existing equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase its market share, stimulate development of the Bank's relations and expand the Bank's offering; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

8.1 Strategic portfolio

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

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

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

8.2 Divestment portfolio

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

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

8.3 Special purpose investment vehicles companies

As at 31 December 2017, the Group included two special investment vehicles. The activity of the companies was financed with the partner's returnable contributions to capital and with their net profits.

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

According to information available as at the date of preparation of the financial statements, the (preliminary unaudited) basic financial data of the companies in question as at 31 December 2017 were as follows:

Special purpose investment vehicle companies

Entity	Headquarter	Authorized capital/votes in GM held by the Bank	Balance sheet	Equity	Net financial profit/loss for 2017
		%	PLN '000	PLN '000	PLN '000
Handlowy-Inwestycje Sp. z o.o.	Warszawa	100.00	11,118	11,077	242
Handlowy Investments S.A.*	Luksemburg	100.00	18,298	17,869	61

* Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2018, which is the entity's balance sheet date.

VII. 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 Regulatory and legal risks

The following factors, among others, affected the financial and organizational situation of the Group in 2017:

Legal acts/regulations	Effective date and the summary of new requirements
Recommendation C on the management of exposure concentration risk	• Time limit: January 2017 • The Recommendation concerns the management of concentration risk and covers the following areas: duties of the Management Board and of the Supervisory Board; rules for the identification, measurement or estimation of concentration risk and tools supporting the process for managing concentration risk; rules for preventing and mitigating concentration risk; concentration risk monitoring and reporting; internal control system; managing the risk arising from interactions between concentrations within a single risk and within different risks.
EBA guidelines concerning the appropriate remuneration policy referred to in Articles 74(3) and 75(2) of Directive 2013/36/EU as well as disclosure of information under Article 450 of Regulation (EU) No 575/2013.	• Time limit: January 2017 • The guidelines present EBA's position on appropriate supervisory practices within the European System of Financial Supervision and on the proper application of European law in the area of remuneration. The guidelines set forth the requirements regarding remuneration policy for all employees as well as for members of governing bodies, for persons who have a significant impact on the Bank's risk profile and for staff in control functions.
Act of 23 March 2017 on Mortgage Credit and on the Supervision of Mortgage Credit Intermediaries and Agents	• 22 July 2017 (with exceptions). • Concerns the implementation of Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property to ensure a high level of protection for consumers who conclude loan agreements secured by real estate.

Recommendation H on the system of internal control in banks	• Time limit: December 2017 • Recommendation H covers the establishment of an internal control based on three lines of defense alongside the assignment of appropriate control mechanisms and the independent monitoring of their application by all units which constitute a given line of defense, in addition to building the internal control system on the concept of a set of control mechanisms which ensure the accomplishment of statutory objectives.

The following factors, among others, will affect the financial and organizational situation of the Group in 2018:

Legal acts/regulations	**Effective date and the summary of new requirements**
Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)	• Time limit: 1 January 2018. • The Regulation requires entities that create and sell PRIIPs (including the Bank and DMBH) to meet a number of new obligations, primarily with respect to the provision of certain information to investors. The aim is to strengthen the protection of individual investors who purchase these products.
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014	• Time limit: 1 January 2018. • The regulation introduces, *inter alia*, a common framework to ensure the accuracy and integrity of the indices used in the EU as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds as well as to enhance the protection of consumers and investors. • The regulation applies, *inter alia*, to entities which develop benchmarks and provide input data for benchmarks and to supervised entities which use benchmarks in financial contracts and financial instruments.
EBA Guidelines on remuneration policies and practices related to the provision and sale of retail banking products and services	• Time limit: January 2018 • EBA Guidelines on remuneration policies and practices related to the provision and sale of retail banking products and services set forth requirements for the development and implementation of remuneration policies and practices related to the offering or distribution of banking products and services to consumers. They are designed to protect consumers against undesirable adverse effects of remuneration policies for sales staff.
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 (“MiFID II”), Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 (“MiFIR”) together with other EU legislation and the related draft Act Amending the Act of 29 July 2005 on Trading in Financial Instruments and Certain Other Acts	• Time limit: MiFID II and MiFIR have been in force since 3 January 2018. • The main purpose of the MiFID II and MiFIR is to enhance the protection of clients who use investment services and to increase the transparency of financial markets as well as to ensure improved competitiveness and efficiency of financial markets in Poland and in the European Union.
Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (“PSD2”)	• Time limit: 13 January 2018. • The PSD2 is the basis for creating a single payment services market in the EU, based on secure and innovative payment services. The transposition of the PSD2 directive should be completed until 12 January 2018, but work on introducing amendments to the Act on Payment Services has not finished yet. The expected date for the amendments to be enacted is the first quarter of 2018, and there will be a 6-month transition period for payment service providers to comply with the amended regulations. • The most important changes are the introduction of a new provider category – the list of payment services has been extended to include two new types of services: the payment initiation service (“PIS”) and the account information service (“AIS”); the introduction of strong authentication, modification of rules concerning liability for unauthorized transactions and the introduction of small payment institutions.
Act of 24 November 2017 Amending Certain Acts to Counteract the Use of the Financial Sector for Fiscal Fraud	• Time limit: 13 January 2018. • The purpose of this regulation is to combat tax fraud, including without limitation VAT fraud. • Banks and credit unions have been obliged to provide certain details on clients

	and their transactions to the clearing house in order to establish risk indicators. The clearing house will provide information on risk indicators to the Head of the National Tax Administration, banks and credit unions. The Act establishes a system for exchanging information between banks and the tax administration. The information provided by banks will enable the administration to carry out financial analyses which allow the identification of flows characteristic of tax fraud. • If it is suspected that an account is used for tax fraud, the National Tax Administration will be able to block clients' accounts for three days with the possibility of extending the block for up to three months.
Act of 15 December 2017 on Insurance Distribution	• The Act concerns the establishment of new regulations resulting from the need to implement the provisions of Directive (EU) of the European Parliament and of the Council 2016/97 of 20 January 2016 into the Polish legal framework. • The Act sets forth the rules for performing activities related to the distribution of personal, property and casualty insurance and the distribution of reinsurance.
Draft Act on Anti-Money Laundering and Combating the Financing of Terrorism	• Pursuant to the draft of 15 January 2018, the Act is to enter into force 3 months from the date of its publication in the Journal of Laws. • The purpose of the Act is to adapt Polish legal regulations to the 4th AML Directive. • The changes mainly involve new rules for reporting to the General Inspector of Financial Information, a wider range of data about clients and beneficial owners, a broader definition of client and basically increased responsibilities on the part of banks.
Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation – GDPR)	• Time limit: 25 May 2018. • The Regulation will be binding on all entities which process personal data in connection with their business. • The Regulation introduces a number of changes and considerably extends the scope of responsibilities for both data controllers and data processors. Another purpose of the new provisions is to provide individuals and supervisory authorities with effective tools to respond to breaches of the Regulation. The most important changes include new and extended rights for data subjects: "the right to be forgotten" (designed to help people who want their personal data to be deleted), the right to demand data to be transferred and the enhanced right to access one's data and to review them. The data subjects' right to object to the processing of their data will also be extended. Restrictions on profiling have been introduced, including the obligation to obtain consent for profiling before data collection commences, a strict obligation to inform about profiling and the obligation to accept any objection to profiling. • GDPR provisions introduce new or strengthened rules for obtaining consent for the processing of personal data from data subjects. GDPR provisions also indicate numerous types of information which must be included in communications on the processing of personal data addressed to data subjects. • Data controllers will be obliged to report to the competent supervisory authority, within 72 hours of detection, any breaches which may threaten the rights and freedoms of the individuals whose data have been breached.
Recommendation Z laying down internal governance principles for banks	• Time limit: June 2018. • Recommendation Z will be a selection of good practices in the field of internal governance. In particular, the document will address such issues as the general corporate governance principles for banks, the organizational structure, roles, responsibilities, composition and the functioning of the Supervisory Board, the Management Board and senior executives, the Bank's code of conduct (ethical principles) and conflict of interest, compensation policy, risk management and internal control policy, information systems and communication, the introduction of new products by the Bank, the dividend policy, the outsourcing policy, continuity of business and transparency of the Bank's governance system. The provisions of Recommendation Z are being drafted in accordance with the guidelines of the European Banking Authority.
EBA and ESMA Guidelines to assess the suitability of members of management bodies and key function holders	• Time limit: June 2018 • EBA and ESMA Guidelines to assess the suitability of members of management bodies and key function holders establish a suitability assessment process as well as a number of requirements for assessing the suitability of both individuals (Supervisory Board members, Management Board members and key function holders) and entire bodies (collective assessment). The Guidelines will come into force on 30 June 2018, superseding the existing EBA guidelines published on 22 November 2012.

Act of 30 November 2016 Amending the Act on Payment Services and Certain Other Acts	• Time limit: 8 February 2017 (transition period: 18 months of the date on which the Act comes into force). • The purpose of the Act is to implement into the Polish legal framework Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. • The most important changes include access to accounts with basic features – the Act introduces provisions which ensure that consumers have access to a basic payment account and to basic payment services associated with that account free of charge. • The Act introduces provisions on payment account switching. • Websites comparing payment service provider offerings related to the maintenance of payment accounts. • Information obligations concerning the fees charged by providers which maintain payment accounts.
Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and European Commission implementing regulations (so-called "EMIR")	• The EMIR has been implemented in stages from since 2012. Subsequent implementation stages related to EMIR, including without limitation the extension of the group of entities which are obliged to apply the initial margin to derivative transactions, will follow in 2018. • The EMIR imposes on entrepreneurs who are both financial and non-financial counterparties obligations related to the execution of derivative transactions, including without limitation transactions executed in the OTC market (e.g. reporting derivative transactions, the settlement of derivative transactions through a central counterparty (CCP), transaction confirmation, reconciliation and securing the exposures arising from the transaction).
Act of 15 December 2017 Amending the Act on Tax on Goods and Services and Certain Other Acts	• Time limit: 1 July 2018. • The Act introduces a split payment mechanism, which means that taxpayers who have received an invoice with the tax amount stated may use the split payment mechanism when paying the amount due. The split payment mechanism is applied as follows: the payment of the amount corresponding to all or part of the tax amount stated on the invoice received is made to the VAT account and the payment of all or part of the amount corresponding to the net sales value arising from the invoice is made to the bank account or to the account at a credit union for which the VAT account is maintained or is settled in another manner. • The taxpayers' freedom of using the funds in the VAT account will be limited. The client will be able to use this account to pay VAT to its counterparties (also to the VAT account) or to settle its VAT liabilities to the tax office. The purpose of the solution is to help reduce VAT fraud. • Under the Act, banks are obliged to open one VAT account for each client free of charge. The solution assumes a change in the technology used in the interbank settlements system and may affect the manner in which some products are made available. The regulation does not apply to consumers.
EBA Guidelines on the management of interest rate risk arising from non-trading book activities	• Time limit: December 2018 • The purpose of the published Guidelines is to determine supervisory expectations concerning the management of interest rate risk arising from non-trading book activities. The Guidelines build upon the previous version published on 22 May 2015 and they take into account supervisory expectations and practices, including interest rate risk standards for the banking book published by the Basel Committee in April 2016 (BCBS standards). The updated Guidelines include, without limitation, requirements for determining the strategy with respect to IRRBB, including risk appetite and risk mitigation methods, the definition of the IRRBB management framework (policies, processes and controls) as well as the division of responsibilities in this area and conducting the proper assessment of new products and activities from the point of view of IRRBB. The Guidelines are the first step and at the same time a bridge leading to the full implementation of the IRRBB requirements reflected in CRD V/CRR II – the banking reform package launched in November 2016. Consultations will last until 31 January 2018.
Recommendation R concerning the rules for credit risk management and the recognition of expected credit losses.	• Time limit: 2018/2019 • On 17 October 2017, the PFSA adopted draft assumptions for an amendment to Recommendation R, which is addressed to banks and concerns the rules for credit risk management and the recognition of expected credit losses. The purpose of the draft amendment of Recommendation R is to adjust it to the requirements of International Financial Reporting Standard 9, which will replace International Accounting Standard 39 as of 2018. The new classification of financial assets will depend on the results of the assessment of the business model for managing the asset portfolio in question and of financial asset

	characteristics. • The amendment is designed to indicate to banks which apply IAS/IFRS principles supervisory expectations concerning good practices for the identification of credit exposures that have become impaired as well as the determination of impairment write-downs for on-balance sheet credit exposures and provisions against off-balance sheet credit exposures.
Draft Act Amending the Civil Code and Certain Other Acts	• The draft is designed to shorten the basic statutory limitation period from ten years to six years and to introduce a separate regulation concerning the effect of claims against consumers becoming time-barred. In addition, it provides for changes concerning the limitation period for claims under statutory warranty and enforcement against bank accounts in judicial and administrative enforcement proceedings.
Draft Act Amending the Act of 9 October 2015 on Support for Home Loan Borrowers in a Difficult Financial Condition	• The draft concerns a change in the mechanism for providing financial support to persons who, as a result of objective circumstances, have found themselves in a difficult financial situation, and at the same time are obliged to make payments related to a housing loan which places a significant burden on their household budgets; it involves the introduction of a new instrument which supports the voluntary restructuring of loans denominated in, or indexed to, currencies other than those in which borrowers earn their income.

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

2.1 Risk management principles

The Group manages its risk by introducing consistent rules, control mechanisms and tools that account for supervisory requirements and best market practices.

The risk management system implemented by the Group, which is based on the concept of joint responsibility, includes three independent tiers ("three lines of defense"):

- Tier 1, i.e. organizational units responsible for the business operations which result in risk-taking and responsible for risk management in the Bank's entire operational activity as well as for identifying and reporting risk to 2nd line units;
- Tier 2, i.e. risk management at organizational units irrespective of first-line risk management and compliance function activities – organizational units of the Risk Management Sector, Compliance, Finance, Legal, HR;
- Tier 3, i.e. Audit units which provide independent assessment of risk management processes and of the internal control system.

When structuring its risk management processes, the Group takes into account its risk profile, strategic and business objectives, available capital and liquidity resources, the macroeconomic environment and regulatory requirements which constitute the framework of the risk control and management system.

Risk management processes are implemented on the basis of written policies and rules concerning the identification, measurement, mitigation, control, monitoring and reporting of the risk to which the Bank is exposed, which policies and rules are approved by the Management Board, persons authorized pursuant to the rules of issuing internal Bank regulations or duly appointed Committees, including:

- the Assets and Liabilities Committee (ALCO);
- the Risk and Capital Management Committee, which includes the Business Risk Control and Compliance Committee (BRCC);
- the Consumer Banking Risk Committee.

The risk inherent in the Group's operations is mitigated by a system of limits which arise from risk appetite, and the Bank's management information system enables risk level monitoring through the systematic provision of portfolio information to the management.

The Group manages all material risks resulting from the pursuit of its adopted business strategy. Within the framework of identification of significant risks, in 2017 the Bank's Management Board considered the following risks to be important from the point of view of risk management and the process of estimating and maintaining internal capital:

- credit risk;
- counterparty credit risk;
- market risk in the trading book;
- interest rate risk in the banking book;
- liquidity risk;
- operational risk;

- compliance risk;
- risk of information security (including cyberspace risk);
- outsourcing risk;
- models risk.

Main changes in the risk management area

In connection with the implementation of PFSA Recommendation C, which became effective on 1 January 2017, in order to improve the efficiency of concentration risk management, the following measures were undertaken, *inter alia*: concentration risk appetite was determined, rules for the identification, measurement, monitoring and reporting of concentration risk were introduced, including for risks other than credit risk, i.e. operational, market and liquidity risks, and the scope of responsibilities of the Management Board and of the Supervisory Board in the area of concentration management was extended.

In 2017, the Group also implemented, as part of its Key Project, the work related to the implementation of IFRS 9 “Financial Instruments”. The entire implementation process, in line with the expectations of the European Securities and Markets Authority and of the Office of the PFSA, was supervised by the Audit Committee of the Bank’s Supervisory Board, which regularly received information on project status and on the issues relevant to individual implementation stages.

At the same time, the Group implemented the changes resulting from the new Recommendation. The Group enhanced its internal control system, including through the introduction of vertical monitoring, which is carried out by the second line of defense in the case of control mechanisms implemented by first line of defense units.

Liquidity risk

Definition	• Liquidity risk is the risk of being unable to meet a financial commitment to a client, creditor or investor when due as a result of a cash flow mismatch.
Management Strategy	• The objective of liquidity risk management is to ensure that the Bank and Group entities have access to liquidity in order to meet all their financial obligations when due, including under extreme but probable stress conditions. • Liquidity risk management is based on: – applicable laws, including without limitation the Banking Act; – requirements of Polish regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority; – rules of prudent and stable management of risk within the Group as well as general risk levels approved by the Bank’s Supervisory Board; – taking into account best market practice. • The Group analyses and manages liquidity risk in several time horizons while distinguishing current, short-, mid- and long-term liquidity, to which appropriate risk measurement methods and limits apply. The purpose of the measures and limits adopted is to limit excessive concentration within the adopted structure of the balance sheet or of funding sources. • Long-term liquidity management is the responsibility of the Assets and Liabilities Committee and as such it is reflected in the Bank’s strategy. It is based on the monitoring of balance sheet structural ratios and on long-term regulatory liquidity measures and includes the analysis of liquidity gaps, the ability to acquire in the future sufficient funding sources as well as funding costs in the light of the overall business profitability. • Mid-term liquidity management, in the one-year time horizon, is the responsibility of the Assets and Liabilities Committee and is based on the process of the Annual Funding and Liquidity Plan defining the size of internal limits taking into account the business plans for asset and liability changes prepared by business units of the Bank as part of financial plans for the next budget year. • Short-term liquidity management, in the three-month time horizon, is the responsibility of the Financial Markets Sub-Sector and is performed based on short-term regulatory liquidity measures as well as internal limits. In addition, the Bank analyses liquidity under stress scenarios, assuming the lack of liquidity gaps in all tenors up to three months as a necessary condition. • Current liquidity management is the responsibility of the Financial Markets Sub-Sector and comprises the management of the balances on the Bank’s nostro accounts and especially the mandatory reserve account with NBP while applying available money market products and central bank facilities.
Risk Measurement	• Liquidity risk measurement is conducted using external supervisory measures (the M1–M4 and LCR/NSFR measures) as well as additional measures which were developed in-house: – gap analysis – MAR/S2; – stress scenarios; – structural liquidity ratios; – market triggers; – significant funding sources; – contingency funding plan.

Monitoring	• Liquidity risk monitoring and management are performed using the supervisory liquidity risk limits set by the Office of the Polish Financial Supervision Authority, and also the internal limits and prudential thresholds for liquidity risk set by the Asset and Liability Committee: – limits for the S2 Report – for pre-defined currencies and time periods; – alert thresholds for structural liquidity ratios; – the alert threshold for stress tests. • The Market Risk Department and a dedicated reporting unit within the Risk Management Sector regularly submit to competent management liquidity position reports, results of stress tests related to liquidity risk and information on the allocation of capital requirements for liquidity risk. • Additionally, liquidity analysis results are systematically presented during meetings of committees such as: the Assets and Liabilities Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Market risk

Definition	• Market risk is the risk of negative impact on the Bank's earnings and equity resulting from changes in: – market interest rates; – foreign exchange rates; – equity prices; – commodity prices; – and all volatilities of these rates and prices.
Management Strategy	• The objective of market risk management is to ensure that the extent of risk accepted within the Group corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group. • The purpose of the market risk measures and limits adopted is preventing excessive concentration of exposure to a single risk factor or a group of related risk factors as well as determining the overall maximum level of risk assumed in the trading book or banking book. • Market risk management at the Bank is based on the requirements of Polish regulatory institutions, including without limitation resolutions of the Polish Financial Supervision Authority, rules of prudent and stable management of risk within the Group as well as general risk levels approved by the Supervisory Board of the Bank, taking best market practices into account. • Market risk management applies to all portfolios generating income exposed to the negative impact of market factors including interest rates, foreign exchange rates, equity prices, commodity prices and the parameters of their volatility. Two types of books have been defined for the purpose of market risk management: the trading book and the banking book. • Trading books include transactions in financial instruments (balance-sheet and off-balance-sheet instruments) expected to generate income owing to change in market parameters over a short period. Trading books include balance-sheet items such as debt securities held-for-trading, i.e., debt securities acquired to be further traded and meeting pre-defined liquidity criteria, as well as all derivative instrument positions broken down into portfolios acquired purely for trading and transactions executed in order to provide an economic hedge for banking book positions. The trading books are valued directly at market prices or using market pricing-based valuation models. Trading book operations are performed by the Interbank Market Trading Division in the Financial Markets Sub-Sector in respect of interest rate risk portfolios and FX risk portfolios. The trading book also includes options, manly foreign exchange options, interest rate options and option structures which reflect the economic nature of the products offered to the Bank's clients and the risk resulting from them. In this area, the Bank concludes transactions in a way which ensures concurrent (at each time and immediate) conclusion of an opposite transaction with the same parameters and, in consequence, the option portfolio does not generate an open exposure to market risk. The only item related to the conclusion of option transactions which is reflected in market risk measurement, and in particular in foreign exchange risk, is the premium paid/received in a foreign currency.
Risk Measurement	• The following methods are applicable to the measurement of risk in trading books: the Factor Sensitivity/DV01 method, the value at risk (VaR) method and stress tests. • Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g., change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%). – In the case of interest rates, the sensitivity measure is DV01; – In the case of foreign exchange (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency; – In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units). • Value at Risk (VaR) is the integrated measure of the market risk of trading books which

	combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Bank's trading book, VaR is calculated at a 99% confidence level and for a one-day holding period. • DV01 as well as VaR for the trading book are calculated net of the economic hedge of the portfolio of securities available-for-sale, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the banking book risk limits. • Each day, the Bank runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario and ignoring the historical correlations of these factors. • The Bank keeps records of exposures of trading books to market risk in more than twenty currencies both for currency positions and exposures to interest rates risk. These exposures are significant only for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the client's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.
Monitoring	• The Market Risk Department and a dedicated reporting unit within the Risk Management Sector regularly submit to competent management reports concerning portfolio sensitivity, value at risk (VaR), the size of the securities position, results of market risk stress tests, information on the allocation of capital requirements against market risk and reports on the use of the Trading MAT and Trading Stop Loss limits (alert thresholds). • Additionally, market risk analysis results are systematically presented during meetings of committees such as: the Assets and Liabilities Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Interest rate risk in the banking book

Definition	• Interest rate risk in the banking book is the risk of the negative impact of changes in interest rates on the Group's interest income and capital. • Interest rate risk may occur where assets and liabilities (including equity and derivatives which meet hedge accounting requirements) are mismatched: they have different maturities, their interest rates change at different dates, their interest is tied to different market interest rate curves (basis risk) and they include options.
Management Strategy	• The purpose of interest rate risk management is to minimize the risk related to the possibility of adverse changes in market interest rates and the negative impact of these changes on the Group's net interest income and consequently on its earnings. • Market risk management at the Bank is based on the requirements of Polish and European regulatory institutions, including without limitation Polish Financial Supervision Authority and EBA resolutions; rules of prudent and stable management of risk within the Group as well as general risk levels approved by the Supervisory Board of the Bank, taking best market practices into account. • Interest rate risk is managed at the strategic and operational levels. The division into risk management levels depends on the nature and type of the decisions which are made by individual decision-making bodies at the Bank which affect the interest rate risk profile and level. – The Bank's Assets and Liabilities Committee (ALCO) is responsible for determining the risk management strategy. ALCO manages interest rate risk by setting risk limits for banking books and conducting monthly reviews of the exposure amount and of the profit or loss realized as a result of managing these books. – Operational interest rate risk management is conducted by the Asset and Liability Management Department, which is authorized to open risk positions within the limits adopted.
Risk Measurement	• The following risk measurement methods apply to banking books: interest rate gap analysis, the Value-at-Close/Total Return method, the Interest Rate Exposure (IRE) method and stress tests. • Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions and of derivative instruments used in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time range. • The general rule in the interest rate gap analysis is that of classifying transactions to respective banking book position revaluation bands according to contracted or assumed transaction interest rate revaluation dates. • The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading book. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and

	gains/losses on sale of assets or cancelling of obligations. • The Interest Rate Exposure (IRE) method is used for estimation of potential impact of a specific parallel shift in the interest rate curves on interest income from the banking book before tax which can be earned in a specific period of time. It is a prospective measure. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in banking books, the Bank normally applies IRE measures with one-year and five-year time horizons. • Stress tests measure the potential impact of material changes in the level or directionality of interest rate curves on open interest positions in the banking book. • The Bank runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and adjusted as appropriate to changes in the market conditions of the Bank's operation. • Activities relating to securities available for sale are the responsibility of the Assets and Liabilities Management Department within the Interbank Market Trading Division. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows: financial liquidity management, hedging against the risk assumed by the Interbank Market Trading Division from other organizational units of the Bank, the opening of own interest rate risk positions in the Bank's books by the Interbank Market Trading Division. • In order to avoid excessive fluctuations in the value of the Bank's capital caused by the revaluation of assets held for sale, maximum limits for the DV01 (Dollar Value of 1 basis point) position are set, which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards for the type of portfolio in question. The limits also apply to positions in derivative instruments (e.g. interest rate swaps) which have been opened to hedge the fair value of the portfolio.
Monitoring	• The Market Risk Department and a dedicated reporting unit within the Risk Management Sector regularly submit to competent management reports concerning portfolio sensitivity, the size of the securities position and results of banking book interest rate risk stress tests. • Additionally, market risk analysis results are systematically presented during meetings of committees such as: the Assets and Liabilities Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Credit risk and counterparty risk

Definition	• Risk of a client's default. • The risk of a counterparty defaulting on its obligation arising from the transaction before or at the date of its final settlement.
Management Strategy	• The main purpose of credit risk management is to support the long-term plan for stable loan portfolio development while maintaining the adequate quality of this portfolio. The credit process is based on a range of fundamental policies, including: – Joint business and independent risk management responsibility for the quality of the loan portfolio and credit process as well as for credit loss; – Adherence to portfolio composition guidelines to ensure diversification and maintain risk/capital alignment; – Introducing a credit competence system, under which special authorizations for making credit decisions can only be granted to properly trained and experienced risk management unit employees, taking into account their previous professional experience as well as risk assessment skills and abilities; – Dependence of approval level on the risk taken – exposures with a higher risk (including size and risk assessment) require approval at a higher decision-making level; – Diverse risk rating standards, adequate to every obligor and exposure, including remedial actions; – A consistent rating process based on, *inter alia*, rating or scoring model results; – Regular monitoring of clients' business results and identification of negative changes in their standing which require immediate reclassification of exposure or remedial actions; – Monitoring the external environment in order to identify at an early stage any economic threats which could have a negative impact on the Bank's portfolio; – Observing credit policy and in special cases the requirement to approve exceptions to the Credit Policy at higher levels within the organization to ensure control over risk policy implementation while complying with the internal regulations in force at the Bank and with applicable laws and regulations issued by competent regulatory authorities.
Risk Measurement	• Risk measurement is conducted using rating and scoring models and scorecards at the individual client level as well as using provision models for portfolio risk assessment and the integrated ICAAP process, both at the aggregated level and for individual business lines.

Monitoring	• Credit risk exposure is monitored and managed at two levels: at the client level and at the portfolio level. The tools used to monitor the obligor's current creditworthiness include: – annual comprehensive reviews of limits, exposures, financial standing and of cooperation with obligors; – reports generated under the Early Warning process; – periodic financial reviews concerning the obligor; – periodic reviews of adversely classified credit exposures; – periodic visits to clients; – reports concerning current contacts between business unit staff/bank Relationship Managers and clients; – the analysis and assessment of external information (rating reports, analysts' reports, press, industry sources, etc.); – an internal classification system. • Portfolio-level monitoring – monitoring the utilization of risk concentration limits in the loan portfolio on the basis of relevant reports; – regular loan portfolio reviews; – *ad hoc* portfolio reviews caused by unexpected important external information; – monitoring of the indicators established for the retail exposure portfolio. • The monitoring of portfolio performance and identification of portfolio trends include regular management reports and control reports, including the analysis of rate of changes in the size and segmentation (industries) of the loan portfolio, client risk (rating), the quality of security for credit exposures and for defaulted exposures, deviations from the applicable risk acceptance rules and the limit utilization level. • The MIS report package for each portfolio is drawn up cyclically and distributed among the Bank's management, including to the managers responsible for the client segment in question, the Risk and Capital Management Committee and the Bank's Management Board.

Operational risk

Definition	• Operational risk is defined as the risk of loss resulting either from inadequate or failing internal processes, people or technology systems or from external events. – Operational risk covers technological and technical risk, outsourcing, fraud, money laundering, information security, external events (business continuity), tax and accounting, product, legal, models, personnel, concentration and conduct risks as well as the reputation risk related to operational risk events and to business and market practices, and also the operational risk inherent in other risks (e.g. credit, counterparty, liquidity, compliance risks); – Operational risk does not include strategic risk or the risk of potential loss caused by decisions to accept credit risk, market risk, liquidity risk or insurance business risk.
Management Strategy	• The objective of operational risk management is to ensure a coherent and effective system of operational risk identification, assessment, mitigation, control, monitoring and reporting and to ensure effective reduction of exposure to operational risk and, consequently, to reduce the number and severity of operational risk events. – Another objective of operational risk management is to fully integrate operational risk management processes and business decision making processes. – When structuring its operational risk management processes, the Group takes into account its business strategy, risk profile, the macroeconomic environment, available capital and liquidity resources and regulatory requirements which constitute the framework of the Group's risk control and management system.
Risk Measurement	• In the risk assessment process, the Group combines different approaches to risk measurement or estimation. – Risk assessment consists in determining the probability of losses arising from operational risk and their potential magnitude. To this end, both quantitative and qualitative measures are used (e.g. risk appetite, capital requirements, target risk profile, KRIs, data on operational risk losses and events, control issues and corrective actions, self-assessment process, risk map, key projects, risk concentration areas and areas where risk level is increasing, scenario analysis, stress tests, changes to processes and products, operational risk attestations, information from internal and external inspections and audits, information reported to the Commissions and Committees). – When assessing risks, both internal and external threats are analyzed. Proper operational risk assessment enables the Bank to appropriately define the risk profile and correctly manage the risk.

Monitoring	• The Risk and Capital Management Committee, supported by Commissions, is responsible for ongoing monitoring of operational risk. – The quality and effectiveness of the operational risk management process (including the self-assessment process) in respective organizational units of the Group is subject to inspections and evaluations carried out by the internal audit function. – Within the consolidated oversight over the Bank and subsidiaries, operational risk data are presented to Commissions and Committees supporting the Management Board and the Supervisory Board of the Bank in the operational risk management process. – The Supervisory Board exercises oversight over the operational risk management system and assesses its adequacy and effectiveness. The Supervisory Board is supported by Committees of the Supervisory Board: the Audit Committee, the Risk and Capital Committee and the Remuneration Committee. – On the basis of summary reports tabled by the Management Board at least twice per year, which define the scale and types of operational risk to which the Group is exposed, risk concentration areas, operational risk management methods, the probability of materialization of operational risk, an assessment of the potential adverse impact of the operational risk management method, and the outcome of monitoring of the operational risk profile and operational risk appetite, the Supervisory Board, assisted by the Audit Committee and the Risk and Capital Committee, evaluates the Management Board's implementation of the assumptions underlying the strategy (including in relation to operational risk management policies) and, if necessary, commissions its review.

VIII. The Bank's community initiatives and cultural sponsorship

Comprehensive information concerning the Bank's compliance with corporate social responsibility principles, including all legally required non-financial information, is included in the Report on Non-Financial Information of Bank Handlowy w Warszawie S.A. and of the Bank Handlowy w Warszawie S.A. Group of Companies for the Financial Year Ended 31 December 2017. The report was drawn up on the basis of the requirements set forth in the provisions of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws [Dz. U.] of 2018 item 395) under which the reporting obligation was imposed.

1. Corporate Social Responsibility (CSR)

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

The Bank's activity in the field of Corporate Social Responsibility ("CSR") includes workplace and market environment, local communities and the environment protection. The strategic goal is to become the company defining the standards of CRS both outside and inside the organization. Investments are continued to support local communities, carried out for the public good in such areas as: financial education, promotion of entrepreneurship, local development and protection of cultural heritage. The Bank's mission in this area is achieved through the Leopold Kronenberg Foundation at Citi Handlowy, which was founded in 1996. The Bank's social engagement is appreciated in independent rankings and listings such as the Respect Index or the Ranking of Socially Responsible Companies.

1.1 Client relationships – market practice

The Bank's mission and its greatest ambition is to build client relationships based on trust and shared growth aspirations. The strategic goal is to achieve a level of client satisfaction whose natural consequence will be unwavering loyalty to the Bank. Therefore, we have been taking several measures, based on research and client feedback, to continuously improve and raise the quality of service standards and our product range. One of our responses to the changing expectations of clients is to adapt the strategy of customer service based on a network of traditional branches to the emergence of new technologies. Today, more than 95% of banking transactions are effected by clients in the self-service model via Citibank Online. In the Smart Banking Ecosystem modern branch network, clients may use such outlets to conduct financial transactions, withdraw/deposit cash using foreign currency ATMs, obtain a credit card or learn, using an interactive screen, about special discounts offered to Citi Handlowy card holders at nearby boutiques.

Client satisfaction surveys

The Bank polls both its institutional and consumer banking clients on a regular basis. The NPS (Net Promoter Score) is the key service quality indicator. The NPS makes it possible to gauge the clients' willingness to recommend the Bank and, therefore, their satisfaction with the Bank's services. Surveys cover the key client segments of the Bank, the major contact channels (i.e. electronic banking, telephone service, branch offices) Ratings and comments are analyzed by a team which studies client experiences, and the findings of such analyses and proposed improvements are discussed at monthly meetings with the Bank's management team. Owing to its disciplined approach, the Bank managed to improve the score in respect of all key NPS indicators in 2017. The Bank remains the leader in the credit card segment and also one of the best two banks in the most affluent client segment.

Among the key actions undertaken to respond to client expectations was the launch of the new Citibank Online website. The new version of the website has a new attractive look and offers new functionalities, and navigating it has become much simpler and more intuitive. The current version of the application offers functionalities requested throughout the project during focus group meetings, and also accounts for the clients' comments made to Relationship Managers and on the official Citi

Handlowy Facebook page. The system was developed using the Responsive Design technology, which means that it is convenient to use on all devices, including tablets and smartphones. Among the new Citibank Online functionalities which were expected and are now highly appreciated by clients are: Digital Team.

The many awards and distinctions received in 2017 testify to the Bank's strong position in creating a product range that matches the clients' needs. One of them was the award in the "best credit card" category in the 8th edition of the ranking compiled by the Bankier.pl website and the *Puls Biznesu* daily, which went to the Citi Simplicity credit card for the second time in a row. Citi Handlowy was also singled out for best practices in the "security" category. The bank also found itself on the podium in the mortgage loan category.

Client communications

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

Client complaints and enquiries

Information about ways of lodging claims, complaints and grievances is easily available on the Bank's website. In order to make the process convenient for clients, complaints can be lodged via several channels. Clients can submit comments:

- Through the electronic form available on the Citibank Online website: https://www.citibankonline.pl/
- By writing to the Bank's address or verbally at a Bank branch
- By e-mail to listybh@citi.com
- By phone – by contacting the CitiPhone hotline: +48 22 362 2484

On the Bank's website, a notice is published that amicable settlement procedures are available in any disputes between the Bank and its clients. An important element of customer service quality, which is monitored in the complaint handling process, is the response time. The standard time for handling complaints submitted by clients from the Citigold and Citigold Private Client segments is one business day, while for clients from the other segments it is four business days. In 2017, the share of complaints caused by the Bank's mistakes did not exceed 30% of the total number. Analyses of client complaints and suggestions, and the manner in which they were handled together with conclusions for the Bank are presented during Customer Experience Board meetings, which take place once a month. On the basis of the analyses prepared, corrective plans are agreed so as to correct any mistakes on part of the Bank in subsequent months. This year, in the strategic area of online banking, the Bank reduced the number of complaints submitted by 18% compared to the previous year, which is a very good result, taking into account that a new platform was deployed at the beginning of the year and clients needed some time to adapt to the changes and learn to use it.

Client Advocate

The appointment of the Client Advocate is aimed at strengthening the Bank's cooperation with clients as well as at improving their satisfaction with the products and services offered by the Bank. The Bank invites its clients to enter into a dialogue by contacting the Advocate. Clients may share their comments and suggestions about the operation of the Bank with the Advocate. The Advocate can be contacted by sending a message to his or her e-mail address. In 2017, 249 cases were filed with the Client Advocate. An additional channel where clients can ask for assistance or submit their comments is the social media one, which is also managed by the Client Advocate. Every month, this channel handles 250 to 300 client inquiries.

Client education

Another type of activity which is not mandatory, but perfectly fits into the Bank's overall activities aimed at ensuring the security and availability of banking services, is financial education for current and prospective clients.

Using the Leopold Kronenberg Foundation at Citi Handlowy, the Bank implements programs whose purpose is to build financial awareness in Poland, which should help clients make more balanced and informed credit and investment decisions and prevent financial exclusion among certain social groups. The activities of the Foundation are focused on financial education, with special emphasis put on developing competences in the field of personal finances. The Foundation contributes to the development of the Polish economy by supporting entrepreneurship through preparing young people to start their own businesses and strengthening the potential of existing companies. The Foundation pays particular attention to startups, making efforts to increase their innovativeness.

The Foundation's activities are complemented by competitions for micro-enterprises, for Polish companies which expand in foreign markets and also for entities from the emerging markets which invest in Poland.

The Foundation also performs its tasks by running a research program, under which it examines, *inter alia*, the Poles' attitudes towards finance and various aspects of the operation of Polish companies abroad.

In addition, the Bank develops its websites so that they include the most important educational materials on transaction security, the use of its products and mobile access.

It is also very important for the Bank to ensure that clients understand the operation of the products they hold and know how to use them in order to make the most of them. To this end, the Bank has included the Frequently Asked Questions section on its website. Additionally, educational materials for clients have been developed, which teach them how to manage their loans and credit history, how to ensure timely loan repayment and why this is important.

In 2017, the Tonality project was implemented whose purpose was to ensure that all Bank responses to client complaints include an educational part so that a similar situation which puts the client at a disadvantage does not happen again.

Client privacy

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

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

1.2 Caring for people

The strategic objective of the Bank is to acquire, develop and retain the most talented people who share the underlying values of the Bank:

Common purpose	One team guided by a common goal: the best service for clients and stakeholders.
Responsible business	Operating in a transparent, prudent and responsible manner.
Innovation	The continuous improvement of the solutions offered to our clients by providing them with comprehensive information on our products and services and by delivering world-class products.
Talent development	A talented team of highly specialized professionals who offer excellent service, show initiative and can meet the toughest challenges.

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

The personnel selection and development process is among the Bank's priorities. Employees have access to the job offers posted on the Career Mobility website, which enables them to apply for any position they are interested in within the Bank and also at other companies of the Citi Group.

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

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

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

Employee sentiment survey

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

Filling the surveys is the first stage of activities related to the work on the study of sentiment among employees. The next stages are the analysis of the results, group interviews designed to gain deeper insight into the results and the preparation of action plans improving the survey, implementation and communication of results to employees.

In 2017, Bank Handlowy, following the best Citi Group practices and market trends related to staff satisfaction surveys, deepened its dialogue with employees by conducting the Puls VOE survey three times a year.

Another regular employee satisfaction survey at the Bank is due to take place in fall 2018.

Dialogue and freedom of association

There are two trade unions in the Bank: "Solidarity" – Mazowsze Region Intercompany Trade Union Organization No. 871 at Bank Handlowy w Warszawie S.A. and the Trade Union of Employees of Bank Handlowy w Warszawie S.A.

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

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

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

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

Corporate volunteering

The Bank has the largest employee volunteer program in Poland coordinated by the Leopold Kronenberg Foundation at Citi Handlowy. It aims to encourage community initiatives of the Bank's current and former employees. In 2017, 249 volunteer projects for more than 37,000 recipients were completed. Volunteers (including from outside the organization) engaged in community work 3,691 times. As part of their activities they supported local communities, residential institutions, community organizations, local government units and animal shelters. The key initiative in the last year was the 12th edition of the Citi Global Community Day. Every year, the Bank's employees and their families and friends try to respond to specific needs in communities close to them within the framework of this project. In 2017, Citi volunteers carried out 230 community projects for the benefit of more than 35,000 recipients during the Citi Global Community Day.

In 2017, key projects, i.e. the "Become Santa's Assistant" Christmas campaign and team building trips combined with volunteering, were continued. In addition, as part of year-long mobilization volunteers were invited to attend meetings of the Volunteer Club, engaging in Senior Volunteering as well as social activities within the framework of regularly sent proposals for individual volunteering.

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

Since 2015, the results of Citi volunteers' efforts within the framework of its largest social campaign – the Citi Global Community Day – have been measured in a survey targeted at partner organizations. The survey conducted in 2017 demonstrated that all partners were satisfied with their cooperation with Citi volunteers and declared their willingness to continue the partnership. As many as 99% of respondents were definitely satisfied with the project implemented. The same percentage confirmed the achievement of the goals set. In the case of 80% of organizations, a decrease in organizational costs was observed, and 33% reported a large impact of cooperation with qualified Citi staff on streamlining management processes within their organization (e.g. in the IT, HR or finance areas). All respondents would strongly recommend working with Citi volunteers to other organizations.

In addition, the Leopold Kronenberg Foundation at Citi Handlowy together with the National Cultural Centre organized the "Volunteering in Culture" nationwide conference, which was held on 4 December 2017 at the Łazienki Królewskie palace. The Conference was attended by more than 130 participants – experts, volunteers and guests who represented 57 institutions from all over Poland. Experts and practitioners shared knowledge in the field of volunteer management at cultural institutions with participants. Citi volunteers took an active part, assisting in the organization of the event. It was also accompanied by the second edition of the Tickets for Volunteers event. In December 2017 and January 2018, 34 institutions from 11 cities across Poland made more than 2,000 tickets for training courses, workshops, performances, film screenings and exhibitions available to volunteers.

1.3 Reduced environmental footprint

One of the important rules of conduct at the Bank is taking care for the environment. The Bank is committed to conducting its business in accordance with the principles of sustainable development. In 2007, a resolution of the Management Board introduced a comprehensive Environmental Management Plan. In 2012, the Management Board accepted the Environmental Policy and implemented the Environmental Management System (EMS). In 2013, the Management Board introduced the Energy Policy and implemented the Energy Management System (EMS). In 2015, the two systems were integrated into a single Environment and Energy Management System (EEMS). As part of the policies in place the Bank defined the following objectives: increasing the level of waste sorting and recycling; reduction of CO_2 emissions, striving to optimize utilities consumption; minimizing the consumption of natural resources; striving for the most efficient energy management; minimizing the use of energy resources; supporting purchases of energy-efficient products and services and ensuring improvements in energy performance.

Direct impact on the natural environment

As part of the policies in place the Bank identified two main areas of impact on the environment. The first is the direct impact resulting from the activities of the Bank including but not limited to consumption of water, energy, paper, generated waste and pollutants emitted into the air. The second is the indirect impact arising from the provision of services by the Bank. As part of the integrated system (EEMS) the Bank's locations are monitored for the consumption of electricity, water, gas, heat and the amount and type of waste generated and greenhouse gas emissions.

From 2012 to 2017, the Bank implemented a number of environmental projects involving upgrades of installations and building facilities: among others, upgrades of air conditioning installations, including precise ones, a system for recovering rainwater, introducing waste sorting at all major Bank buildings as per sorting guidelines, upgrading heat exchanger stations, BMS automation, installing card-controlled air conditioning switches in conference rooms, upgrading and replacing elevators with new ones fitted with energy recovery systems, changing building lighting to LED fixtures, building bicycle sheds for staff, arranging green areas around main buildings and improving the thermal insulation of buildings: replacing windows and façades in its three main buildings. As part of EEMS procedures, the effects of the efforts implemented are regularly analyzed and studied; these measures have confirmed the effectiveness of the system in reducing the consumption of utilities.

In 2016, the efforts implemented brought tangible results for the Bank and for the environment, i.e. a reduction in electricity consumption by 797 MWh compared to 2015 and by 5,202 MWh per year compared to 2012, which was reflected in a reduction in CO_2 emissions by 500 tonnes compared to 2015 and by 3,261 tonnes compared to 2012. In addition, water consumption was reduced by 2,558 m^3 compared to 2015; in relation to 2012, it decreased by 13,194 m^3. In 2017, heat energy consumption was reduced by 3,261 GJ relative to 2016, but increased by 3,385 GJ relative to 2015 owing to the longer heating period.

In 2017, the Bank successfully passed a supervisory audit concerning the conformity of its Environmental and Energy Management System to the requirements of the ISO 14001 and ISO 50001 standards. The results of the audit confirm the efficient operation of the EEMS and the achievement of its objectives.

Personnel education

The Bank carries out educational and information campaigns on environmental protection addressed to employees and service providers. These include training and communications as well as articles made available on intranet sites to encourage proper segregation of waste, saving energy and water, and spreading knowledge of the Environment and Energy Management System. Every year, the Bank also takes an active part in the Earth Hour and the Earth Week actions. In 2017, during the Earth Hour power was turned off at the Bank's main buildings once again. On the company intranet, announcements were also published concerning the environmental projects implemented within the framework of the EEMS, waste sorting and consumption of natural resources. For several years, the Bank has participated in the "My City Without E-Waste" campaign, under which the Bank receives coupons for the electronic devices delivered for recycling and then forwards these coupons to schools in Warsaw for the purchase of teaching materials and aids for students.

Indirect impact

Under the agreement signed in 2014 with the Kreditanstalt für Wiederaufbau (KfW) bank and using EU funds, the Bank offered to its clients repayable and non-repayable financing (grants) under the ELENA (European Local Energy Assistance) program, which was also implemented by KfW in other EU Member States as part of a wider Community initiative – the IEE II (Intelligent Energy Europe) Program. The ELENA program supported local and regional authorities and other public entities fulfilling statutory tasks of local or regional authorities in order to meet the assumptions of the 20-20-20 Strategy and was designed to facilitate the financing of energy efficiency improvement projects by local authorities. In 2016 and 2017, a project was implemented that involved the thermal efficiency improvement of 17 multi-family residential buildings belonging to a municipality that was a BHW client. The implementation of the project resulted in annual energy savings of 5,326 MWh for the upgraded buildings.

1.4 Local community involvement and development

The Leopold Kronenberg Foundation at Citi Handlowy has been active for years in the areas of entrepreneurship and financial education, protection of cultural heritage and employee volunteering, while paying considerable attention to the development of local communities. It was established in 1996, on the 125th anniversary of the establishment of Bank Handlowy w Warszawie S.A.. To date, its financial education programs have benefited more than 2,300,000 direct participants from different age groups: children, youth, adults and seniors. We awarded 1,341 grants to more than 1,000 non-governmental organizations.

The Foundation coordinates one of the largest and oldest employee volunteering schemes in Poland (established in 2005). Since the beginning of the program, Citi volunteers have been involved in 23,000 voluntary activities, worked almost 125,000 hours in total and helped more than 285,000 beneficiaries. Every year, the program covers nearly 250 outlets, and around 23% of Citi staff are involved in volunteering.

Protection of cultural heritage is one area in which the Foundation is active. As part of its program of recovering works of art, 42 prints and lithographs by outstanding Polish painters (Juliusz Kossak, Leon Wyczółkowski) and two paintings (by Anna Bilińska-Bohdanowiczowa and Wojciech Gerson) returned to Poland. 172 exhibits from a collection of silverware were recovered as well. The Aleksander Gieysztor Award was given to 18 individuals and institutions in recognition of their efforts aimed at the protection of Polish cultural heritage.

Leopold Kronenberg Foundation at Citi Handlowy programs

- The **Citi Handlowy Emerging Market Champions Award** was established to promote companies which have successfully expanded into international markets. The project includes a survey of the business climate in Poland and the global potential of domestic companies. The award ceremony of the 4th edition of the competition took place on 28 September 2017 during the plenary session "Turning Point. How Will Transatlantic Economic Relations Change?" within the framework of the European Forum for New Ideas in Sopot. Grupa Maspex was named the Emerging Market Champion in the "Polish Foreign Investment" category, and the winner in the "Foreign Investment in Poland" category was LG Chem Poland sp. z o.o. The project involved the 4th edition of a survey diagnosing the operation of Polish companies abroad. The survey focused on the sales strategies used by Polish companies in other countries.
- **IT for SHE** is an innovative combination of mentoring, networking, inspirational and competence-building solutions which support the development of women's careers in the IT area. Under the project, a coalition of international companies present in the Polish market whose business has a clear technological component will be created. The program will involve the largest IT camp in Europe for 120 girls, a mentoring program at the best technology

companies for 35 participants and a volunteer-led campaign in villages and small towns in order to encourage girls to learn programming.

- The **Aleksander Gieysztor Award** is the most prestigious award given annually to institutions or individuals in recognition of their efforts for the protection of Polish cultural heritage. This year, Elżbieta Penderecka and Krzysztof Penderecki won the award, which was presented for the 18th time. They were honored for their special contribution to music education of the highest quality and for their activities aimed at the promotion of classical music heritage in Poland.
- **Recovery of Polish Art** is a program which aspires to recover the cultural heritage lost by Poland during and in the wake of WWII. In May 2016, the Leopold Kronenberg Foundation at Citi Handlowy launched the Art Sherlock application. It is an original project of the Communi Hereditate Foundation implemented in cooperation with the Ministry of Culture and National Heritage and the Leopold Kronenberg Foundation at Citi Handlowy. This is the first solution of its kind, which will completely revolutionize the identification of works of art that were plundered during wars. The application will enable the automatic identification of artworks solely on the basis of a photograph taken with a mobile phone.
- **Roots** is a program under which the Foundation promotes the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In 2017, the measures initiated in previous years were continued. Since 2014, the digital archive created within the framework of the “Roots” program can be used for the Foundation’s and the Bank’s internal purposes. The archive contains more than 31,000 pages of scanned documents and pictures concerning the activities of the Bank and of the Kronenberg family. These materials are used for promotional purposes on special occasions – anniversaries related to the Bank and to Leopold Kronenberg.
- **Employee Volunteering Program of Citi Handlowy** aims to promote the social commitment of present and former employees of the Bank.
- The **Grant Program** is a competition through which the Leopold Kronenberg Foundation at Citi Handlowy supports the most valuable projects conceived by not-for-profit organizations in the area of education and local development. In 2017, three grants were allocated.

Programs implemented with the support of the Citi Foundation

- **My Finances** is the largest financial education program for young people in Poland. In 2017, the program was also sponsored by the National Bank of Poland and conducted at schools by the Junior Achievement Foundation Poland (Fundacja Młodzieżowej Przedsiębiorczości). In 2017, the number of students covered by the program amounted to 90,000. The program was pursued by 1,600 teachers.
- **Week for Saving** is a program which combines financial education and shaping entrepreneurial attitudes, aimed at promoting savings and informed management of personal finances among Poles and also at encouraging young people who are entering the labor market to try their hand at business. The project is implemented together with the Think! Foundation. The goal of the program is to promote systemic changes in education focused on management of personal finances and entrepreneurship. The project consists of the “Poles’ Attitudes Towards Finance” survey (10th edition), of the Entrepreneurship Development Program and of competitions conducted at universities and high schools as part of the “First Million” game.
- **Be Entrepreneurial** is an economic education program addressed to secondary school students. It is carried out in collaboration with the Junior Achievement Foundation Poland. Its objective is to provide learning opportunities and teach students the attitudes and skills in the area of broadly defined entrepreneurship by founding and running businesses in the legal form of a general partnership. More than 2,000 students from 220 schools participated in the program in 2017.
- **“Business Startup” Program** is a two-part program which supports young entrepreneurs (providing assistance in opening and running a business and support for existing companies). It is implemented in cooperation with Academic Incubators of Entrepreneurship. The objective of the project is to promote entrepreneurship among students and to help them make their business visions come true. In 2017, the program was attended by 150 students and 100 start-ups already operating on the market.
- **Business in Women’s Hands** is a program addressed to 50 women who want to start their own business, carried out in cooperation with the Women Entrepreneurship Foundation. By taking advantage of lectures, training sessions and individual work with mentors, each participant has a chance to successfully launch a business. The objective of the program is to create a cluster of women’s companies in Warsaw. In 2017, the 4th edition of the program began, which will be completed by mid-2018.
- **Microentrepreneur of the Year** is a competition organized in 2017 by the Microfinance Centre for Central and Eastern Europe with the support of the Coalition for Microentrepreneurship. The idea of the competition is to support entrepreneurship, encourage people to set up their own businesses, and recognize and promote the best among them as examples of effective business activities. The main prize in the competition is the Microentrepreneur of the Year title; prizes are also awarded in individual categories depending on how long the company has operated. The youngest enterprises are grouped in the START category, middle-aged companies in the PROGRES one and the oldest ones in the SENIOR category.

2. Cultural patronage and sponsorship

- In June 2017, Citi Handlowy supported the **7th European Financial Congress in Sopot** as a partner; the EFC is an annual meeting of representatives of the European finance sector, the world of politics, and economic experts. The subject of this year’s edition was “Capital, Taxes and International Solidarity in the 21st Century”.

- Citi Handlowy experts participated in the 8th edition of the "**Time for Economic Patriotism**" program organized under the auspices of the *Puls Biznesu* daily, which culminated in the main debate involving guests from the political and business elites and from the economic media, including Vice-President of Citi Handlowy Maciej Kropidłowski; thematic debates were also held at the Warsaw Stock Exchange. In a special supplement to the *Puls Biznesu* daily, commentary by Head of the Strategic Client Department Piotr Kosno on the transformation of business models was published.
- Within the framework of cooperation with the American Chamber of Commerce, during the **European Economic Congress in Katowice** in May and the **Economic Forum in Krynica** in September 2017, Citi Handlowy was a partner of the **AmCham Dinner**. The motto of the 27th edition of the Forum in Krynica was "Project Europe – What Recipe for the Coming Decades?". Among the nearly 200 panels, which covered topics ranging from macroeconomics through management, energy, international and regional politics to society and the media, debates with the participation of Citi Handlowy experts stood out.
- In 2017, Citi Handlowy became a patron of the Polish edition of Edward Lucas's book ***Cyberphobia: Identity, Trust, Security and the Internet***. The first such book in Poland, it is a comprehensive and at the same time easily comprehensible manual on how to safely navigate the Internet and take care of the hardware which we use to go online, full of valuable tips and recommendations.
- On 4 July 2017 at ul. Senatorska 16 where the Citi Handlowy headquarters are currently located and where the Warsaw City Hall functioned in the early 20th century, a **memorial plaque was unveiled in the honor of Julian Spitosław Kulski**, vice-mayor and appointed administrator of Warsaw from 1939 to 1944. This was yet another of the Bank's initiatives aimed at protecting cultural heritage. A few years ago, the Bank sponsored the plaque for Marcel Porowski who was mayor of the capital during the Warsaw Uprising. Earlier, Tadeusz Kościuszko's statue was erected at the Żelazna Brama square with Citi Handlowy's assistance.
- In October, **Citi Handlowy** initiated cooperation with the *Harvard Business Review Polska* magazine under which the Bank's clients were able to participate in the networking meetings held by the Board of the magazine. Citi Handlowy is a partner of the series of business meetings organized in Warsaw and Gdańsk. Citi Handlowy was also a partner of the special edition of *Harvard Business Review Polska* dedicated to the luxury goods market in Poland.
- Citi Handlowy supported the development of golf in Poland as a partner of the **Polish Golf Association**. It is also the Title Sponsor of the **Citi Handlowy Lexus Business Cup**, a tennis tournament that takes place in six Polish cities from May to September 2017.

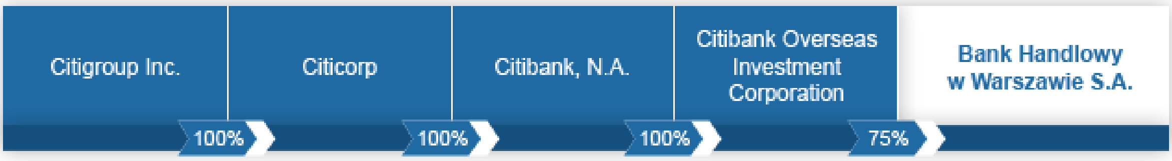
IX. Investor information

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

1.1 Shareholders

The only shareholder of the Bank that holds at least 5% of share capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group and focused on its foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2016, neither the number of shares held by COIC nor its participation in the share capital and votes at the GSM of the Bank changed, and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM.

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



The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded and listed on the Warsaw Stock Exchange (WSE).

Among shareholders participating in the share capital of the Bank are open-end pension funds which, in accordance with public information about the structure of assets as at 31 December 2017, held a total of 15.60% of shares of the Bank, which was an increase of 1.67 p.p. against 31 December 2016.

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

Shareholder	31.12.2017		31.12.2016	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
Nationale – Nederlanden OFE	4,360,787	3.34%	5,041,389	3.86%
Aviva OFE Aviva BZ WBK	4,309,889	3.30%	4,028,293	3.08%

OFE PZU „Złota Jesień"	2,169,621	1.66%	2,066,895	1.58%
PKO BP Bankowy OFE	2,042,316	1.56%	467,208	0.36%
MetLife OFE	1,751,871	1.34%	1,422,669	1.09%
Aegon OFE*	1,732,047	1.33%	877,426	0.67%
AXA OFE	1,374,045	1.05%	1,284,269	0.98%
Allianz Polska OFE	1,163,890	0.89%	1,073,285	0.82%
Nordea OFE	-	-	683,429	0.52%
Generali OFE	589,532	0.45%	551,014	0.42%
Pekao OFE	519,059	0.40%	363,785	0.28%
OFE Pocztylion	364,251	0.28%	340,452	0.26%
Total	**20,377,307**	**15.60%**	**18,200,114**	**13.93%**

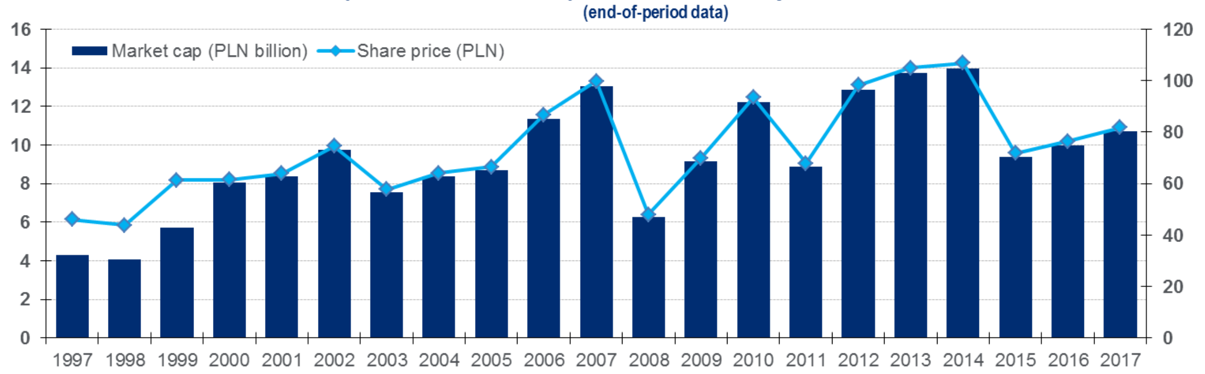
Source: Annual information about the structure of assets of Open Pension Funds; Bank share closing price at the end of the period.
** In 2017 Aegon OFE purchased assets of Nordea OFE.*

1.2 Performance of the Bank's shares on the WSE

In 2017, the Bank was included in the following indices: WIG, mWIG40, WIG Banks and WIGdiv. Additionally, the Bank has been present, since it was first compiled, in the RESPECT Index including socially responsible companies listed on the WSE Main Market.

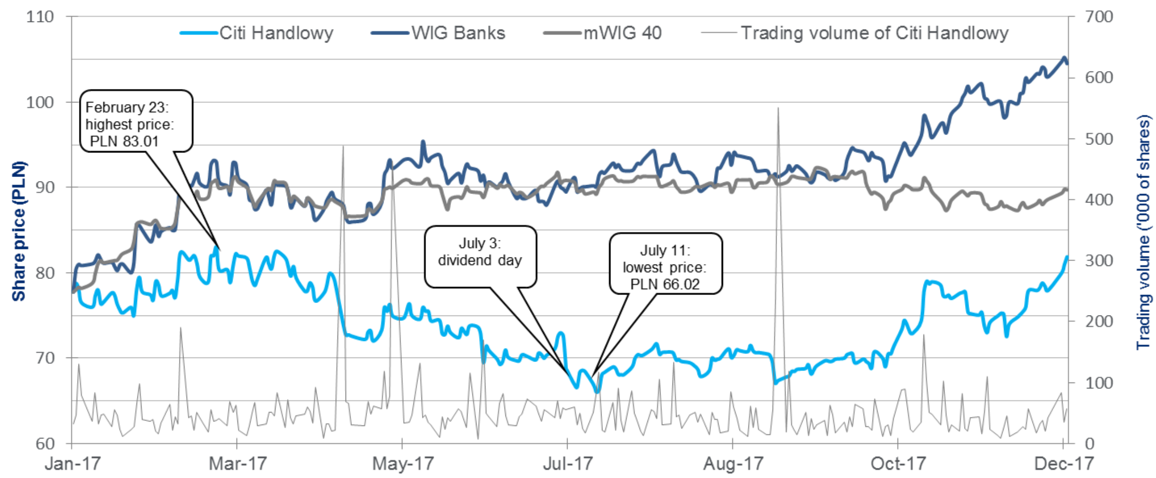
The Bank's shares closed on the last session in 2017 (i.e. 29 December 2017) at PLN 81.88, i.e. 7% higher as compared to the level as at 30 December 2016, which amounted to PLN 76.39. In the same period, the WIG and WIG-Banks indices advanced by 23% and 35% respectively.

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



The capitalization of the Bank at the end of 2017 stood at PLN 10.7 billion (compared to PLN 10.0 billion at the end of 2016). Stock market indices amounted to: price/earnings (P/E) – 20.0 (in 2016: 16.6); price/book (P/B) – 1.5 (compared to 1.5 in the previous year).

The Bank's share price and trading volume vs. WIG-Banks and mWig40 indices in 2017
(29/12/2017 = 81.88 zł)



The price of Bank shares in the first two months of 2017 showed a clear upward trend. In February, the Bank's share price reached its maximum level in 2017, i.e. PLN 83.01. In the later part of the first half of 2017, the Bank's shares were in a downward trend which stopped in July. On 11 July 2017, the price of the Bank's shares dropped to the lowest level in 2017, i.e. PLN 66.02. In the second half of 2017, the share price rose. Finally, on 30 December 2017, the price equaled PLN 81.88.

The Bank's average share price in 2017 was PLN 73.96 and the average daily volume of trading in the Bank's shares was slightly higher than 52,000.

2. Dividend

On 14 March 2018, the Management Board adopted a resolution on the proposed distribution of net profit for 2017 and recommended to allocate for the payment of the dividend 100.0% which is PLN 4.11 per ordinary share.

The final decision on the distribution of net profit for 2017 will be made by the General Meeting of the Bank.

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

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	971,422,828	7.43	7.43	99.9%
2015	611,486,928	4.75	4.68	98.6%
2016	591,887,988	4.62	4.53	98.0%
2017***	537,010,956	4.11	4.11	100.0%

** 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 14, 2018.*

3. Rating

As at end 2017, the Bank was fully rated by an international rating agency: Fitch Ratings ("Fitch").

On 20 October 2017, as a result of the annual review of credit ratings, Fitch affirmed all ratings of the Bank in the following levels:

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

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

In its justification the Fitch Ratings stated that Bank's ratings (IDRs) are driven by the Bank's intrinsic strength, as reflected in the Viability rating and underpinned by potential majority shareholder support (Citigroup). The Viability rating of the Bank reflects its low-risk business model and higher capital buffers

4. Investor relations

Investor relations, which ensure information to existing and potential investors, capital market analysts and rating agencies, are an integral element of the Bank's information policy, the purpose of which is to cater to the information needs of all persons and institutions interested in corporate information. In terms of investor relations, the main tools of the information policy are:

- systematic contacts with investors and analysts in the form of teleconferences and meetings, also at the Bank's premises, attended by members of the Management Board of the Bank;

- support of the Press Office during quarterly press conferences for the media, organized after publication of interim reports;
- publishing current information on the Bank and its projects as well as all current and interim reports on the website. The website also enables contacts with the Investor Relations Office (IRO) which has broad knowledge of the Bank and the Capital Group;
- enabling media to be present at the General Meeting of the Shareholders of the Bank.

In 2017, representatives of the Management Board and of the Investor Relations Office held more than 50 individual and group meetings as well as conference calls with investors. Bank representatives also participated in conferences for investors held both in Poland and abroad.

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

X. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2017

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

Since 2003, Bank Handlowy w Warszawie S.A. („the Bank", „the Company") has complied with the corporate governance principles approved by the Warsaw Stock Exchange ("WSE"), originally published as the "Best Practices at Public Companies 2002", and subsequently amended by the following documents: "Best Practices at Public Companies 2005" and "Best Practices for WSE Listed Companies 2008", and finally, as of 1 January 2016, "Best Practices for WSE Listed Companies 2016" ("Best Practices"). The document is available at the website of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) (http://www.gpw.pl) in the section dedicated to corporate governance at listed companies.

The key objective of adopting the corporate governance principles stipulated by the Warsaw Stock Exchange as a standard for the Bank's operations 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 to all shareholders. The willingness to ensure transparency of the Bank's operations, and especially of the relationships between the Company's statutory bodies and their processes, also caused the Bank to adopt the best practices as set forth in the Best Practices.

On 25 February 2016, the Bank's Management Board stated that the Bank was willing to comply with the corporate governance principles laid down in "Best Practices for WSE Listed Companies 2016". On 11 March 2016, the Supervisory Board decided to accept the Bank's policy concerning the application of the corporate governance principles contained in the "Best Practices for WSE Listed Companies 2016" document. Both bodies submitted their declarations, which included some reservations, however. Those concerned:

a) not applying Recommendation IV.R.1. Best Practices (holding of the annual general meeting as soon as possible after the publication of the annual report) until the annual general meeting of the Bank which will be held in 2016;

b) applying Recommendation IV.R.2. Best Practice (general meeting in electronic format) subject to a decision being made by the Management Board prior to each such meeting;

c) not applying Principle IV.Z.2. Best Practices (the determination of the period between the award of options or other instruments linked to company shares under an incentive scheme and the possibility of exercising such options or instruments, which should be a minimum of two years).

In 2017, the Bank did not apply the following rules and recommendations arising from the Best Practices:

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

b) Recommendation IV.R.1. concerning the holding of the annual general meeting of the Bank in 2017 as soon as possible after the publication of the annual report;

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

Ad (a) Rule VI.Z.2. Best Practices for WSE Listed Companies. The incentive schemes implemented at the Bank, including deferred cash remuneration and programs based on financial instruments, i.e. phantom shares, are in line with best practices for the banking sector and the requirements previously set forth in PFSA Resolution No. 258/2011 of 4 October 2011 and now in the Regulation of the Minister of Development and Finance of 6 March 2017 concerning the risk management system and internal control system, remuneration policy and the detailed procedure for estimating internal capital at banks and in the Banking Act, which implement CRD III and CRD IV. These regulations include slightly different requirements than those set forth in the Best Practices for WSE Listed Companies 2016. The Bank's incentive programs, which are based on the above regulations, reflect the specific features of the banking sector and are designed to protect the interests of the Bank's clients and shareholders as well as ensuring its stable growth. Details on incentive schemes are available in the Bank's annual report as well as in the Information concerning the capital adequacy of the Group of Companies of Bank

Handlowy w Warszawie S.A. Depending on the provisions included in the regulations and laws on broadly understood remuneration policy in the banking sector, the Bank will consider amending its incentive schemes based on financial instruments.

Ad (b) Recommendation IV.R.1. Best Practices for WSE Listed Companies. Owing to the fixed calendar of corporate events for 2017 and the fact that the Bank waited for the regulatory authority's approval for the payment of dividend from 2016 profit, this recommendation was not applied to the Annual General Meeting held in 2017.

Ad (c) During the Annual General Meeting held on 22 June 2017 and during the Extraordinary General Meeting held on 6 December 2017, points 2) and 3) of Recommendation IV.R.2. of the Best Practices were not followed. When assessing its ability to apply the recommendation, the Bank considered legal, organizational and technical risks related to providing shareholders personally absent at the GM with bilateral real-time communications, using means of electronic communications, which may adversely affect the progress of the GM. In the Bank's opinion, the possibility of exercising voting rights in the course of an electronic General Meeting using electronic means of communication raises objections and generates an increased risk of irregularities in the conduct of the General Meeting. Currently available technologies do not guarantee secure distance voting, which may affect the validity of the resolutions adopted, and thus result in significant legal consequences. The Bank took into account the potential technical problems including the identification of the shareholders, the choice of a suitable measure for bilateral communication, the inability to guarantee the hardware requirements on the shareholder's side, unpredictable delay times for different shareholders in different time zones, remote communication problems due to factors beyond the control of the Bank, including ones caused e.g. by regional problems related to individual components of the public Internet network.

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

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

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

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

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

At its meeting on 7 March 2017, the Management Board of Bank Handlowy w Warszawie S.A. decided to accept the "2016 Report – Assessment of the Application of Corporate Governance Principles for Supervised Institutions of the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." drawn up by Compliance and submit it to the Audit Committee of the Supervisory Board and subsequently to the Bank's Supervisory Board. The aforementioned Report includes an independent assessment of the application of "Corporate Governance Principles for Supervised Institutions in 2016" and it is submitted in order for the Audit Committee of the Supervisory Board and the Bank's Supervisory Board to conduct their own assessment of the application of "Corporate Governance Principles for Supervised Institutions" at the Bank in 2016.

At its meeting of 21 March 2017, the Audit Committee of the Supervisory Board of Bank Handlowy w Warszawie S.A., pursuant to the provisions of para. 3, subpara. 1, point 2 of the Bylaws of the Audit Committee, having reviewed the Compliance Report on the independent assessment of the Bank's compliance with "Corporate Governance Principles for Supervised Institutions", recommended that the Supervisory Board find that in 2016, the Bank acted in compliance with the "Corporate Governance Principles for Supervised Institutions", with the exception of those principles which it decided not to apply. The resolution was adopted unanimously.

At its meeting on 22 March 2017, the Supervisory Board of Bank Handlowy w Warszawie S.A. examined the "2016 Report – Assessment of the Application of Corporate Governance Principles for Supervised Institutions of the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." drawn up by Compliance and including an independent assessment of the application of "Corporate Governance Principles for Supervised Institutions"; on the basis of the aforementioned Report by Compliance, which included the independent assessment of the application of "Corporate Governance Principles for Supervised Institutions", and taking into account the positive recommendation of the Audit Committee of the Supervisory Board, the Supervisory Board decided that in 2016, the Bank acted in compliance with the "Corporate Governance Principles for Supervised Institutions", with the exception of those principles which it decided not to apply. The resolution was adopted unanimously.

Annual General Meeting of Shareholders of Bank Handlowy w Warszawie S.A.:

By Resolution No. 5/2017 of 22 June 2017 on considering the Management Report of Bank Handlowy w Warszawie S.A. and of the Group of Companies of Bank Handlowy w Warszawie S.A. for 2016 including the Corporate Governance Statement for 2016, pursuant to Article 395, para. 2, point 1 of the Code of Commercial Companies and para. 9, subpara. 1, point 1 of the Bank's Articles of Association, the Annual General Meeting of Bank Handlowy w Warszawie S.A., having examined the Management Report of Bank Handlowy w Warszawie S.A. and of the Group of Companies of Bank Handlowy w Warszawie S.A. for 2016 including the Corporate Governance Statement for 2016, decided to approve the Report.

By Resolution No. 13/2017 of 22 June 2017 on considering and approving the report of the Supervisory Board of Bank Handlowy w Warszawie S.A. on its activities for the period from the date of the Annual General Meeting of the Bank in 2016 until the date of the Annual General Meeting of the Bank in 2017, which contained the report and the assessment set out in the Corporate Governance Principles for Supervised Institutions adopted for use by the Bank, the Annual General Meeting approved the Supervisory Board report of Bank Handlowy w Warszawie S.A. on the activities of the Supervisory Board for the period from the date of the Annual General Meeting of the Bank in 2016 until the date of the Annual General Meeting of the Bank in 2017, which contained the report and the assessment set out in the Corporate Governance Principles for Supervised Institutions adopted for use by the Bank.

In accordance with the requirements of the Corporate Governance Principles for Supervised Institutions and the information policy in place at the Bank, following the independent review of the application of the Corporate Governance Principles for Supervised Institutions by the Supervisory Board of Bank Handlowy w Warszawie S.A., the Bank publishes information on the application of the Principles and exclusion of certain Corporate Governance Principles on its website.

With regard to three principles, a decision was made not to apply them:

1) para. 11, subpara. 2 (related-party transactions) – this principle will not be applied to agreements concerning ongoing operating activity, and in particular to those related to liquidity, due to the nature of such transactions and the number of signed agreements.

2) para. 8, subpara. 4 (electronic general meeting) – the IT solutions which are currently available do not guarantee the security and efficiency of electronic general assemblies. However, the Management Board does recognize the relevance of this form of shareholders' participation in the Bank's general meetings and therefore a separate decision in this regard will be made prior to each general meeting.

3) para. 16, subpara. 1 (Polish as the language of Management Board meetings) – Management Board meetings held with the participation of foreigners, and especially foreign members of the Management Board who do not speak Polish, are held in English. At the same time, all motions examined at Management Board meetings as well as any and all materials and minutes of the meetings are drafted and archived in Polish.

3. Description of main features of internal control and risk management systems in place at the Bank with respect to the process of preparation of financial statements and consolidated financial statements

The financial statements of the Bank are drawn up by the Financial Reporting, Control and Tax Department, which is a separate organizational unit within Finance in the Management and Support Sector, reporting directly to the Chief Financial Officer who is Vice-President of the Bank's Management Board. The process of drawing up the financial statements is covered by the Bank's internal control system aimed at ensuring the accuracy and fairness of the data shown in the Bank's financial statements. The internal control system includes the identification and control of risks related to the process of drawing up the financial statements, monitoring of the Bank's compliance with legal provisions and internal regulations in this respect, as well as internal audit. In December 2017, the Bank strengthened its internal control system, *inter alia*, by introducing vertical monitoring which was carried out by the second line of defense for the control mechanisms implemented by first line of defense units.

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

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

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

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

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.

5. Holders of all securities with special control rights together with a description of those rights

The Bank did not issue any securities that would give special control rights to shareholders.

6. Restrictions on the exercise of voting rights

No restrictions on the exercise of voting rights have been provided for at the Bank.

7. Restrictions on the transfer of ownership of the securities

No restrictions on the transfer of ownership of the securities issued by the Bank have been introduced at the Bank.

8. Rules governing the appointment and dismissal of Members of the Management Board and their powers

The Management Board consists of five to nine members. Members of the Management Board are: President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company and Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years at the request of the President of the Management Board of the Bank. The appointment of two members of the Bank's Management Board, including the President and the member of the Management Board who manages the risk at the Bank requires the approval of the Polish Financial Supervision Authority.

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

1) on the day of the General Meeting of Shareholders approving the Management Report on the activities of the Bank and financial report for the full past year of the term of office of the Management Board member;
2) upon death of the Management Board member;
3) upon dismissal of the Management Board member;
4) as of the date of resignation submitted to the Chair of the Supervisory Board in writing.

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

1) determines the strategy of the Company;
2) establishes and liquidates the Company's committees and determines their competences;
3) decides and submits them to the Supervisory Board for approval the Management Board's bylaws;
4) decides the rules of handling special purpose funds created from net profit and submits them to the Supervisory Board for approval;
5) decides on the date of payment of dividend within the timeline defined by the General Meeting of Shareholders;
6) appoints proxies, general attorneys and general attorneys with the right of substitution;
7) decides in matters defined in the Management Board bylaws;
8) makes decisions in issues brought by the President, Vice-President or Member of the Management Board;
9) adopts the Company's draft annual financial plan, accepts investment plans and reports on their implementation;
10) accepts reports on the activities of the Company as well as financial statements;
11) formulates decisions regarding distribution of profit or coverage or losses;
12) approves the HR and credit policy as well as legal rules governing the Company's operation;
13) approves the principles governing the Company's capital management;
14) approves the employment structure;
15) determines and submits to the Supervisory Board for approval the fundamental organizational structure of the Bank adapted to the size and profile of risks and appoints and dismisses Heads of Sectors, Heads of Sub-Sectors and Heads of Divisions as well as determining their competences;

16) develops the plan of control measures undertaken at the Company and accepts reports on audits conducted;
17) resolves other issues subject to submission to the Supervisory Board or to the General Meeting pursuant to the Articles of Association;
18) decides on contracting liabilities or managing assets whose total value with respect to a single entity exceeds 5% of the Company's equity or grants authorizations to designated parties to take the aforementioned decisions; however, with respect to issues for which the Company's Committees have responsibility, such decisions are made upon consultation with the competent Committee.

The following persons are authorized to submit matters for consideration by the Management Board:

1) President of the Management Board;
2) other members of the Management Board;
3) heads of other organizational units with respect to matters falling within the scope of the operation of such units, with the consent of the supervising member of the Management Board or the President of the Management Board.

With regard to matters concerning the fundamental organizational structure of the Bank and the appointment or dismissal of the Heads of Sectors, Heads of Sub-Sectors and the Heads of Divisions and determining their competences at the initiative of the President of the Management Board or in agreement with the same.

The internal division of competences between the members of the Management Board is determined by the Management Board of the Bank in the form of a resolution of the Management Board and is subject to approval by the Supervisory Board of the Bank.

As part of the internal division of powers within the Bank's Management Board:

1) the position of the member of the Management Board who oversees the management of material risks in the Bank's operations has been distinguished;
2) Internal Audit reports directly to the President of the Management Board;
3) the President of the Management Board must not combine his or her function with the function of the member of the Management Board who oversees the management of material risks in the Bank's operations;
4) the President of the Management Board must not be entrusted with overseeing an area of the Bank's operations posing material risks in the Bank's operations;
5) the member of the Management Board who oversees the management of significant risks in the Bank's operations must not be entrusted with overseeing the area of the Bank's operations posing the risks whose management he or she oversees;
6) oversight of the area of compliance management and the area of accounting and financial reporting is assigned to a designated member or members of the Management Board.

9. 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 amendments to the Articles of Association must be entered in the register of entrepreneurs of the National Court Register. Pursuant to Article 34, para. 2 in conjunction with Article 31, para. 3 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 business name;
2) the Bank's registered office as well as the object and scope of its business activities;
3) the governing bodies and their powers, in particular those of members of the Management Board appointed upon the consent of the Polish Financial Supervision Authority, as well as the principles governing the decision-making process, the fundamental organizational structure of the Bank, principles for submitting declarations with respect to property rights and obligations, the procedure for issuing internal regulations and the decision-making process regarding contracting liabilities or disposal of assets whose total value with respect to one entity exceeds 5% of the Bank's equity;
4) the principles of functioning of the management system including the internal control system;
5) own funds and financial management principles;
6) share privileges or restrictions with respect to voting rights.

10. General Meeting procedure, description of its fundamental powers as well as shareholder rights and methods of exercising them

10.1 General Meeting procedure

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

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

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

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

Through the party in charge of opening the General Meeting, the Bank's Management Board always provides the Chair of the General Meeting with instructions for performing such a function in a manner ensuring compliance with generally applicable laws, corporate governance rules, the Articles of Association as well as internal regulations of the Bank. Members of the Bank's Management Board and Supervisory Board as well as the statutory auditor of the Bank should participate in the General Meeting if it discusses financial issues.

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

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

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

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

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

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

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

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

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

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

General Meetings may be attended by the media.

10.2 Fundamental powers of the General Meeting

The General Meeting should be convened to:

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

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

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

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

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

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

10.3 Shareholders' rights and their exercise methods

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

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

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

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

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

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

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

1) could be detrimental to the Company, its related party or subsidiary, in particular through the disclosure of technical, trade or organizational secrets of the enterprise;

2) could expose a member of the Management Board to criminal, civil or administrative liability.

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

The governing bodies of the Company do not limit information but, at the same time, they comply with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, the Act on Trading in Financial Instruments, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, the Regulation on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof, as well as the provisions of the Code of Commercial Companies.

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

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

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

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

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

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

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

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

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

The Bank ensures adequate protection of the minority shareholders' rights, within the limits imposed by its corporate status and the associated primacy of the majority rule principle. In particular, to ensure equal treatment of its shareholders, the Bank has adopted, among others, the following principles:

- General Meetings of Shareholders of the Bank are always held at the head office of the Bank in Warsaw;
- representatives of the media are allowed to be present at General Meetings of Shareholders;
- in accordance with the Bank's practice, all important materials prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to shareholders no later than 14 days before the date of the General Meeting, at the Bank's registered office and on the Bank's website;
- General Meeting of Shareholders acts according to its stable bylaws that define in detail the rules of holding meetings and adopting resolutions;
- the General Meeting of Shareholders is attended by members of the Supervisory Board and Management Board who give explanations and information about the Bank to other participants of the Meeting within the scope of their responsibilities;

members of the General Meeting of Shareholders who object to a resolution have the right to justify their objection. In addition, each participant of the Meeting is allowed a possibility to make a written statement recorded in the minutes of the

Meeting.

11. 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

11.1 Management Board

The Management Board consists of five to nine members. Members of the Management Board are: President of the Management Board, Vice-Presidents of the Management Board and Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years.

As of December, 31st 2017, the composition of the Company's Management Board was as follows:

Member of the Management Board	Professional experience
Sławomir S. Sikora *President of the Management Board*	The President of the Management Board is responsible for: • directing the work of the Management Board, determining how to replace absent members of the Management Board; • convening and chairing meetings of the Management Board; • presenting the position of the Management Board to the Bank's governing bodies, state and local authorities as well as the general public; • filing motions to the Supervisory Board regarding the appointment or dismissal of members of the Management Board as well as determination of their remuneration; • issuing internal regulations governing the Bank's operations and has the right to authorize the remaining members of the Management Board or other employees to issue such regulations; • deciding on the use of internal audit results and notifying the audited unit of any decisions made with respect to the audit; • exercising other rights under the bylaws adopted by the Supervisory Board; • overseeing the identification and implementation of Bank strategy; • supervising the internal audit unit; • supervising the risk of non-compliance of the Bank with the laws, regulations and market standards; • overseeing personnel policies; • shaping the image of the Bank; • ensuring the consistency of the organizational structure of the Bank; • overseeing the implementation of corporate governance; • overseeing legal services; • overseeing the Bank's security area in terms of protection of persons and property; ensuring that the principles of operational risk management associated with the activities undertaken are in place at subordinated divisions and organizational units operating outside of the divisional structure.
David Mouillé *Vice-President of the Management Board*	Responsible for consumer banking, including for the quality standard of the banking services provided by the organizational units overseen, ensures the implementation at the units overseen of the operational risk management rules associated with their activities.
Maciej Kropidłowski *Vice-President of the Management Board*	Responsible for: • operations on the financial markets, including money market, foreign exchange, securities and derivatives transactions; • securitization operations; • activities related to arranging financing for investment plans, mergers and acquisitions in the following areas: – syndicated loans; – bridge facilities; – debt securities; – project finance; – off-balance sheet financing. • custodian and depositary activities; and ensures that the principles of operational risk management associated with

Member of the Management Board	Professional experience
	the activities undertaken are in place at the organizational units overseen.
Barbara Sobala *Vice-President of the Management Board*	Supervises the management of significant risk in the Bank's operations, is responsible for the risk management system comprising: • the Bank's lending policy; • the loan portfolio quality; • credit risk; • market risk; • operational risk; • coordinating activities related to the implementation at the Bank of the regulatory requirements from the area of risk management, including the recommendations of supervision authorities. Responsible for the adjustment of the organizational structure of the Bank to the size and risk profile of the Bank. She is a member of the Management Board to whom infringements and violations of the applicable laws and procedures and ethical standards in force at the Bank can be anonymously reported.
Witold Zieliński *Vice-President of the Management Board*	Oversees the area of accounting and financial reporting, including financial control, is responsible for management accounting, bookkeeping, drafting accounting principles, coordinating activities related to the implementation at the Bank of the requirements arising from the provisions of the law, as well as regulatory resolutions and recommendations in the area of capital adequacy. Also responsible for the current cooperation with, and supervision over corporate and commercial banking, including overseeing services for clients from financial institutions sector, ensures the implementation in of operational risk management rules related to the activities undertaken at the organizational units overseen.
Katarzyna Majewska *Member of the Management Board*	Responsible for the following areas at the Bank: Operations and Technology, Real Estate Management, Administration. Ensures that the principles of operational risk management associated with the activities undertaken are in place at subordinated organizational units.
Czesław Piasek *Member of the Management Board*	Responsible for the following areas at the Bank: Operations and Technology, Real Estate Management, Administration. Ensures that the principles of operational risk management associated with the activities undertaken are in place at subordinated organizational units.

On January 29, 2018 Mr. Witold Zieliński resigned from his function as Vice President of the Management of the Ban and on March 1, 2018 Mr. Czesław Piasek resigned from his function as Member of the Management Board of the Bank.

The Management Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Bylaws of the Management Board. The Bylaws of the Bank's Management Board set forth the scope and procedure of the Management Board's proceedings as well as the procedure for the adoption of resolutions.

In 2017, the following committees operated within the Bank's Management Board:

1) Assets and Liabilities Committee (ALCO);
2) Equity Investment Committee;
3) Risk and Capital Management Committee;
4) the Consumer Banking Risk Committee.

Meetings of the Management Board are convened and chaired by the President of the Management Board. The President of the Management Board may establish fixed dates for the meetings.

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

The attendance of members of the Management Board at its meetings is obligatory. Any expected absence of the member of the Management Board at the meeting should be reported to the Corporate Services Office and must be justified.

In addition to members of the Management Board, meetings are attended by: The Head of the Corporate Services Office or a person appointed by him or her, the Head of Compliance, the Head of Legal and the Head of Internal Audit.

The Head of Internal Audit and the Head of Compliance attend the meetings of the Management Board if the agenda covers the internal control system, the internal audit function, the compliance function or issues related to the Company's internal controls. Upon the motion of members of the Management Board, meetings may be attended by the Company's employees or third parties competent with respect to a particular matter. The chair of the meeting may decide that the meeting is to take place without the participation of parties not being members of the Management Board.

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

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

In justified cases, resolutions may be adopted by the Management Board in a circular (written) procedure pursuant to a decision of the President of the Management Board or the member of the Management Board replacing the President. Draft resolutions to be taken in a circular procedure are presented for approval of all members of the Management Board and have binding effect after their signing by an absolute majority of the members of the Management Board, including the President of the Management Board or the member of the Management Board replacing the President. The date of entry into force of a resolution is the date of its signing by the Member of the Management Board putting signature under the resolution already signed by at least half of the members of the Management Board. If at least one of the members of the Management Board raises an objection as to deciding in a circular procedure, the draft resolution should be submitted to the next meeting of the Management Board. A resolution may be adopted in a circular procedure provided that all members of the Management Board are notified of its adoption. A resolution adopted in a circular procedure constitutes an appendix to the minutes from the first meeting of the Management Board following its adoption.

With the consent of the President of the Management Board, the members of the Management Board absent at the meeting may participate in the meeting and vote by means of direct communication at a distance in a way that allows simultaneous communication in real time and mutual identification between all members of the Management Board participating in the meeting or voting (e.g. video conferencing, teleconference).

Meetings of the Management Board are recorded. Minutes are taken by the Corporate Services Office. Minutes of the Management Board meetings should include:

1) the agenda;
2) the first and last names of attendees;
3) information on excused absence or reasons for the absence of members of the Management Board from a meeting;
4) texts of resolutions adopted;
5) the number of votes cast for a particular resolution and dissenting opinions;
6) the name of the entity or organizational unit or the first and last name of the person in charge of implementation of the resolution; and
7) resolution implementation deadline.

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

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

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

11.2 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 para. 14, subpara. 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, including its Chairperson, should be of Polish nationality. The Supervisory Board includes independent members.

As at the day of signing this Report on Activities, the composition of the Company's Supervisory Board was as follows:

Member of the Supervisory Board	Professional experience
Andrzej Olechowski *Chair of the Supervisory Board*	Mr. Andrzej Olechowski is a member of the Board of Directors of Euronet, of the Supervisory Board of Play Communications S.A. and of the Advisory Committee of Macquarie European Infrastructure Funds as well as a member of the Board of Trustees, European Council on Foreign Relations. Previously, he was the Minister of Finance and the Minister of Foreign Affairs of the Republic of Poland. He was also a

Member of the Supervisory Board	Professional experience
	candidate for the office of the President of the Republic of Poland. He is a member of a number of non-governmental organizations, among others, the Chair of the Polish Group of the Trilateral Commission. He is the author of numerous publications on international trade and foreign policy. He holds a PhD and teaches at the Vistula Academy of Finance and Business. In the years 1991–1996 and 1998–2000, he already served as the Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003. Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 23 July 2012.
Frank Mannion *Deputy Chair of the Supervisory Board*	Mr. Frank Mannion is the Citi Chief Financial Officer for Europe, the Middle East and Africa (EMEA). He assumed this position in January 2011 and is in charge of the group of over 1,000 employees in the entire Region. Mr. Mannion began his career in Ireland before moving to join PricewaterhouseCoopers in London. Mr. Mannion joined Citi in the UK in 1989 in the Planning and Analysis team. He has held various Finance roles, including Technology Finance Manager and Head of CMB EMEA Product Control. In 2008, he became Citi Regional Franchise Controller in the Region of Europe, Middle East and Africa (EMEA) where he was responsible for a group of more than 800 employees from different areas. Previously, he was in charge of the Control of Products and Regulatory Reporting (Product Control, Controllers and Regulatory Reporting) as CMB EMEA Regional Controller. Frank Mannion graduated from the National University of Ireland in Galway and has a degree in Commerce. He also holds the title of a Chartered Accountant. He lives in London with his family. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 28 June 2010.
Shirish Apte *Member of the Supervisory Board*	Mr. Shirish Apte was the Co-Chairman, Citi Asia Pacific Banking. In the years 2009–2011, he served as the Head of the Asia-Pacific Region (CEO, Citi Asia Pacific), being responsible for South Asia including such countries as Australia, New Zealand, India and the countries belonging to the Association of South-East Asian Nations (ASEAN). He was a member of the Citi Executive Committee and Operating Committee. Mr. Apte has worked at Citi for over 32 years. He was, among others, CEO of the Central and Eastern Europe, Middle East and Africa (CEEMEA) Region, and earlier as the Country Manager he was responsible for Citi's operations in Poland, and was Vice-President of Bank Handlowy w Warszawie S.A. In 1993, Mr. Shirish Apte moved from India to London where he assumed the position of Senior Risk Manager in the CEEMEA Region. Then he was appointed Head of Corporate Finance and Investment Bank in the CEEMEA Region, including India. Mr. Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and holds a BA degree in Commerce. He also holds an MBA from London Business School.
Marek Belka *Member of the Supervisory Board*	Professor Marek Belka was Deputy Prime Minister twice, and from May 2004 to October 2005 he was the Prime Minister of the Government of the Republic of Poland. From 2010 to 2016, Professor Marek Belka was President of the National Bank of Poland and Chair of the Monetary Policy Council. From November 2011 to October 2015, he was Chair of the Development Committee of the World Bank Group and the International Monetary Fund. In January 2011, he was elected member of the Steering Committee of the European Systemic Risk Board (ESRB). Professor Marek Belka has also held a number of high positions in the international arena. He was Head of the International Coordination Council in Iraq and Director of Economic Policy in the Coalition Provisional Authority in Iraq (2003–2004). From 2006 to 2008, he was the Executive Secretary of the United Nations Economic Commission for Europe (UNECE) in Geneva. In November 2008, he became Director of the European Department of the International Monetary Fund.
Grzegorz Bielicki *Member of the Supervisory Board*	Mr. Grzegorz Bielicki holds a Master's degree in Economics and is an expert in the fields of internal audit, finance and accounting. From 2013 to 2016, he managed the Internal Audit Department of the National Bank of Poland. In this position, he reported directly to the President of the NBP and participated in all meetings of the Management Board of the Polish central bank. He was involved in international cooperation both within the EU and outside its borders. In particular, he arranged technical assistance for the National Bank of the Republic of Belarus in the internal audit area. He was also member of the Internal Audit Committee under the auspices of the European Central Bank. In 2008, Mr. Bielicki became Director of the Internal Audit Function at Bank BPH S.A.,

Member of the Supervisory Board	Professional experience
	which was then part of the GE Group (GE Capital). In that role, he was responsible for preparing the merger of the Internal Audit Functions that operated at the two local GE banking subsidiaries (Bank BPH and GE Money Bank) whose merger was finally completed in January 2010. At the same time, he was responsible for the implementation of the Group's internal audit standards, methodology and tools at BPH, and subsequently at the new bank created as a result of the merger. His responsibilities also included cooperation with financial market regulators and coordinating the inspections conducted at the bank. From 2002 to 2008, he was Head of the Banking System Off-Site Analysis Division at the General Inspectorate of Banking Supervision at the NBP. His tasks in that position included ongoing supervision, microanalysis, undertaking legal and supervisory measures with respect to commercial banks in Poland as well as banking system macroanalysis. At that time, Mr. Bielicki was member of the Banking Supervision Committee under the auspices of the European Central Bank as well as member of the Group of Banking Supervisors of Central and Eastern Europe (BSCEE Group). In 1998, he started working at Bank Handlowy w Warszawie S.A. as the Head of the Accounting Department whose tasks included regulatory and financial reporting, including the drawing up of financial statements in accordance with IAS and preparing financial reports for the Polish Securities and Exchange Commission, the central bank, the Central Statistical Office and tax authorities. From June 2000, in addition to his previous responsibilities, he also became responsible for U.S. GAAP accounting policy and reporting according to U.S. GAAP. Mr. Bielicki started his professional career at the Banking and Finance Department of KPMG Polska where he conducted audits of financial statements, loan portfolio reviews and due diligence exercises at many largest banks in Poland. Mr. Bielicki holds a Master's degree in Economics from the Foreign Trade Faculty of the Warsaw School of Economics. He also studied abroad at the Limburg Business School (University of Limburg) where he participated in an internship under the Tempus program. He is highly qualified in finance and accounting, which is confirmed by his ACCA (Association of Chartered Certified Accountants) membership.
Igor Chalupec *Member of the Supervisory Board*	Mr. Igor Chalupec is a manager and financier. He is currently the CEO of the ICENTIS Capital company, which specializes in capital market transactions, and the CEO of RUCH S.A., one of the largest press distributors in Poland. From 2004 to 2007, he served as President of the Management Board of PKN ORLEN S.A. – the largest company from the refinery and petrochemical sector in Central Europe. From 2003 to 2004, he held the position of Deputy Minister of Finance and Deputy Chair of the Polish Financial Supervision Authority; he was also a member of the European Financial Committee in Brussels. From 1995 to 2003, he was Vice President of the Management Board of Bank Pekao S.A. (which belongs to the UniCredit Group). He was the founder and CEO (from 1991 to 1995) of Centralny Dom Maklerski Pekao S.A., the largest brokerage firm in Poland; for many years (from 1995 to 2003) he served as member of the Warsaw Stock Exchange. Mr. Chalupec has sat on the Supervisory Boards of Bank Handlowy S.A. (Citi Group) since 2009 and of Budimex S.A. (Ferrovial Agroman Group) since 2007. He is also member of the Polish Business Council, the Program Board of the Economic Forum (Polish Economic Forum in Krynica), the Program Board of the Executive Club, member of the Board of the Institute of Public Affairs Foundation, member of the Board of the Polish Institute of Directors, member of the Chapter of the Lesław A. Paga Award, Vice President of the Polish Bridge Union and member of the Board of the Women's Workshop Foundation. He is the Founder and Chair of the Board of the Foundation of the Evangelical Educational Association. He is the co-author of *Rosja, ropa, polityka, czyli o największej inwestycji PKN ORLEN* ["Russia, Oil, Politics. The Largest Investment by PKN ORLEN"] – a book about the purchase of the Mažeikių refinery in Lithuania. Mr. Chalupec has received numerous awards and honors including the Manager Award (in 2012), the Lesław A. Paga Award (in 2007), the WEKTOR award (in 2006) and the HERMER award (in 1996). Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 18 June 2009.
Jenny Grey *Member of the Supervisory Board*	In February 2016, Ms. Jenny Grey was appointed Head of Human Resources at Citi EMEA. Earlier, from October 2012, Ms. Grey served as EMEA Head of Public Relations and was responsible for protecting and enhancing Citi reputation in the EMEA Region. Her responsibilities included media relations, internal and external communications, brand and community development. Ms. Grey has 24 years of experience in the field of communications. She joined Citi in October 2012, after four years of working for the British government – most recently at the headquarters of the British Prime Minister as Executive Director for Government Communications. She was Head of Profession, overseeing a staff of 5,000 who were tasked with communication across the public sector. Previously, she had worked in the public sector where she held the position of Director for Communications and Social Marketing, e.g. in the British National Health

Member of the Supervisory Board	Professional experience
	Service and on the Audit Committee. She was also Director of Corporate and International Affairs at Cancer Research UK, the largest charitable foundation in the United Kingdom, where she established the first unit responsible for public policy and support. Ms. Grey began her professional career in advertising and then became a public relations advisor, specializing in the field of reputation management and crisis management. She advised many international clients, including corporations such as McDonald's, Toyota, BP or Allied Domecq. She graduated in Social Psychology from the London School of Economics and holds a honors degree in English Language and English Literature from Durham University. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2016.
Marek Kapuściński *Member of the Supervisory Board*	Mr. Marek Kapuściński graduated from the Foreign Trade Faculty of the School of Planning and Statistics in Warsaw (currently Warsaw School of Economics) and completed SEHNAP/Stern School of Business postgraduate studies at New York University. He worked for Procter & Gamble for 25 years, until September 2016. He contributed to the company's success in the Polish and Central European markets and co-authored many standards for the Polish market after the transformation, e.g. standards for the cosmetics industry, business ethics and social responsibility standards and self-regulation rules in the field of advertising. From July 2011, he was Chief Executive Officer and Vice-President for the nine key P&G markets in Central Europe, and from January 2007 he performed those responsibilities for Poland and the Baltic countries. He was the first Pole and Central European at this management level of the global Procter & Gamble corporation, active member of regional company management and of its Global Business Leadership Council which included all 250 top company managers. He is an experienced CEO and leader, expert in the areas of strategy, innovation and management, an active author of standards for brand management that continuously adapts to new challenges as well as standards for shopper marketing, sales and communication in a digital, omni-channel environment. As the first Pole and Central European at P&G, he was subsequently promoted to the positions of Brand Manager, Marketing Manager and Marketing Director; for 5 years, he was responsible for the development of a number of brands in the Central and Eastern Europe, Middle East and Africa region. He was co-author of the strategy for brands such as Always, Vizir, Ariel, Lenor, Fairy, Pampers, Gillette, Head&Shoulders, Pantene, Blend-A-Med and Old Spice, contributing to their leading market positions. In recognition of his contribution to the building of brands and the authoring of standards and practices for the Polish advertising market, Media Marketing Polska awarded him the title of the "Top Marketer of the Last 20 Years". Lecturer, juror and discussion panel participant. He currently serves on Supervisory Boards of a number of companies and public benefit organizations and advises their Management Boards. Privately, he invests in startups and contributes to the development of young Polish art and culture. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 29 September 2016.
Marc Luet *Member of the Supervisory Board*	Mr. Marc Luet is the Cluster Head for Russia, Ukraine and Kazakhstan. He is also President and Chairman of the Board of Directors of AO Citibank. In Russia, Citi is one of the largest and best capitalized banks in the country with more than 3,000 institutional clients and over 500,000 consumers served by more than 3,000 employees in 11 cities across the country. From 2014 until recently, Mr. Luet was Citi Division Head for Central and Eastern Europe. He took this role after 3.5 years of serving as a head of Citicorp Consumer and Commercial Banking for Europe, Middle East and Africa (EMEA) and an Interim Head for the Global Consumer Marketing & Internet Office (GCMIO) when he rejoined Citi back in June 2010. Mr. Luet has over 20 years of retail and cards experience. He was previously at Visa, where he served as President for CEMEA, an area covering 80 geographies, from 2008 to 2010. He was responsible for Strategy, Marketing, Sales, Finance, Legal, Corporate Communications, and Regulatory Affairs for the region. He was also a member of the Operating Committee of Visa Inc. Prior to Visa, Mr. Luet was CEO of Consumer Finance and Retail International for Fortis Group from 2005 to 2008 and CEO of Egg France from 2002 to 2005. Prior to 2002, he spent 12 years at Citi where he held several Marketing, Risk and Operations positions in Europe and North America before becoming the Consumer Business Manager in Hungary and then Belgium. Mr. Luet has a BSc in Economics from the Panthéon Sorbonne University, is a graduate of Institut d'Etudes Politiques de Paris, and holds an MBA from the Tuck School of Business Administration at Dartmouth College. He is a member of the Executive Board of Russian-American Chamber of Commerce.

Member of the Supervisory Board	Professional experience
Anand Selvakesari *Member of the Supervisory Board*	Mr. Anand Selvakesari has been with Citi since 1991. Since July 2015, he has been Asia Pacific Head, Consumer Banking. In his current position, he is responsible for the consumer banking and commercial banking area across Asia. Before holding his current position, from December 2013 Mr. Selvakesari was Consumer Business Head in the region that included the countries belonging to the Association of Southeast Asian Nations (ASEAN) and India. In that role, he was responsible for consumer banking in the ASEAN Cluster, which includes Singapore, Malaysia, Indonesia, Philippines, Thailand, Vietnam and India. Earlier, from 2011 to 2013, Mr. Selvakesari was Country Business Manager at Consumer Bank in India, managing consumer banking, credit cards, unsecured loans, banking for non-Indian citizens and commercial banking in India. The areas managed by Mr. Selvakesari have become market leaders, enjoying record brand preference among clients and cooperating in the implementation of pioneering solutions with other market leaders. Before taking up his post in India, Mr. Selvakesari was Director of Retail Banking at Citi China from 2008 to 2011. The business managed by Mr. Selvakesari grew several times its original size, becoming the industry leader in innovation and introducing many new products to the market. He was also Director of Retail Banking in Taiwan from 2004 to 2006; for eight years, he fulfilled regional roles in Singapore, working in various positions in the investment banking, wealth management and retail banking areas from 1996 to 2004. He holds an MBA in Finance and Marketing and has a Mechanical Engineering degree – both obtained in India. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2016.
Stanisław Sołtysiński *Member of the Supervisory Board*	Stanisław Sołtysiński is a Professor of Law. Professor Sołtysiński engages in academic activity as Professor of Law at the Adam Mickiewicz University in Poznań (where he also served as the Dean of the Faculty of Law and Administration). He lectured many times as a visiting professor at the University of Pennsylvania Law School in Philadelphia as well as at the College of Europe in Bruges, Max Planck Institute in Munich and at the Academy of International Law in the Hague. He is a member of many academic associations and organizations. Among others, he is a correspondent member of the Polish Academy of Learning and a member of the Board of Directors of UNIDROIT. He is a co-author of the Commercial Companies Code. Professor Sołtysiński also practices law as a partner at the Spółka Komandytowa “Sołtysiński, Kawecki i Szlęzak” Doradcy Prawni law firm [limited partnership]. He was appointed to the Supervisory Board of Bank Handlowy w Warszawie S.A. on 26 March 1997 and was the Chair of the Supervisory Board from 30 June 2000 to 20 June 2012. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.
Stephen R. Volk *Member of the Supervisory Board*	Mr. Stephen R. Volk holds the function of Vice Chairman of Citigroup Inc. and is responsible for Citigroup Senior Management matters as well as Investment Banking. He is also a member of the Citigroup Executive Committee. Mr. Volk has been with Citigroup since September 2004. Earlier Mr. Volk held the function of Chairman of Credit Suisse First Boston where he worked together with the CEO on company strategic management and key matters related to clients. His professional experience with Credit Suisse First Boston began in August 2001 and before that he worked for Shearman & Sterling, a New York-based law firm, where he had been Senior Partner since 1991. During his career in Shearman & Sterling, Mr. Volk acted as legal counsel to a number of corporations including Citicorp. The firm provided advisory services for Citicorp within a wide range of fields including restructuring of the Citigroup debt portfolio in Latin America. Among some important transactions carried out with substantial participation of Mr. Volk were the following: mergers of Glaxo and SmithKline, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman & Sterling in 1960 after graduating from Dartmouth College and Harvard Law School and became a Partner of this company in 1968. Mr. Volk is a Director of Continental Grain Company and a former Director of Consolidated Edison, Inc. as well as Trizec Hahn Properties. He is also a member of the Council on Foreign Relations, the Dean’s Advisory Board of Harvard Law School and a fellow of the American Bar Foundation. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.

In 2017, the Supervisory Board also included: Ms. Anna Rulkiewicz who resigned from the function as of 22 June 2017, and Mr. Mirosław Gryszka who resigned from the function as of 5 December 2017.

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

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

1) appointment and dismissal of the President of the Management Board of the Company in a secret ballot;
2) appointment and dismissal of Vice-Presidents and other members of the Company's Management Board in a secret ballot upon the motion of the President of the Management Board;
3) determination of the terms and conditions of employment contracts or other legal relationships between members of the Management Board and the Company;
4) granting consent to the opening or closing of foreign branches;
5) adoption of the Bylaws of the Supervisory Board as well as the approval of:
    a) Bylaws of the Management Board of the Company;
    b) rules for the management of special funds created from the net profit.
6) granting prior consent to undertaking measures with respect to management of the Company's fixed assets whose value exceeds one tenth of the Company's share capital;
7) appointing the entity authorized to audit financial statements to audit or review the financial statements;
8) granting consent to the hiring and dismissal of the Head of Internal Audit and the Head of Compliance upon the motion of the Management Board;
9) any benefits provided by the Company and its related parties to members of the Management Board as well as granting consent to entering into a material agreement by the Company or its subsidiary with the Company's related party, member of the Supervisory Board or the Management Board as well as their related parties;
10) supervision over the implementation and monitoring of the Bank's management system, including in particular supervision over compliance risk management, as well as evaluation, at least once a year, of the adequacy and effectiveness of this system;
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 the risk incurred 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.

Pursuant to the Banking Act, the Supervisory Board approves the internal division of competences in the Management Board and the remuneration policy for the Company.

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

Members of the Supervisory Board perform their duties in person. The Supervisory Board performs its duties collectively; each member of the Supervisory Board has the right to be provided by the Management Board with information required for due performance of their duties. Meetings of the Supervisory Board are held at least once a quarter. Such meetings are convened by Chair of the Supervisory Board and, in his/her absence, by one of Vice-Chairs of the Supervisory Board on their own initiative, upon the motion of a member of the Supervisory Board or upon the motion of the Management Board of the Company. The Chair of the Supervisory Board may determine fixed dates for the Supervisory Board's meetings. Notices convening such meetings, including the agenda and materials to be debated upon, are distributed by the Secretary of the Supervisory Board to members of the Supervisory Board at least 7 (seven) days prior to the date of the meeting.

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

On an annual basis, the Supervisory Board adopts a resolution regarding the report on the activities prepared by the Supervisory Board, presenting the Supervisory Board's evaluation of the Company's position, evaluation of the Supervisory

Board's activities, evaluation of the internal control system and the significant risk management system, as well as the results of the evaluation of the financial statements of the Company, including motions of the Management Board as to profit distribution. The above document is submitted by the Supervisory Board to the General Meeting for approval.

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

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

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

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

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

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

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

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

Members of the Management Board of the Company attend meetings of the Supervisory Board, except for meetings concerning directly the Management Board. Upon the motion of the Chair of the Supervisory Board or upon the motion of the Management Board of the Company, meetings may be attended by the Company's employees or third parties competent with regard to a particular matter. The Head of Internal Audit may participate in meetings of the Supervisory Board at which issues related to the Company's internal controls are considered. In specially justified circumstances, the Chair of the Supervisory Board may decide to convene a meeting without the participation of parties other than members of the Supervisory Board, irrespective of any preceding regulations providing otherwise.

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

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

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

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's governing bodies as well as the streamlining of their functioning. The Committee is composed of: Marek Belka acting as Chair, Stanisław Sołtysiński acting as Vice-Chair, and Shirish Apte, Grzegorz Bielicki, Igor Chalupec, Jenny Grey, Marek Kapuściński, Frank Mannion, Marc Luet, Andrzej Olechowski, Anand Selvakesari and Stephen Volk acting as Committee members. Other members of the Committee included Mirosław Gryszka until 5 December 2017 and Anna Rulkiewicz until 22 June 2017.

Audit Committee

The Audit Committee is composed of:

1) Grzegorz Bielicki – Chair of the Committee (since 7 December 2017);
2) Frank Mannion – Deputy Chair of the Committee;
3) Shirish Apte – Member of the Committee;
4) Igor Chalupec – Member of the Committee;

5) Marek Kapuściński – Member of the Committee;

Mirosław Gryszka was Chair of the Committee until 4 October 2017; subsequently, from 5 October 2017 until 5 December 2017, Marek Kapuściński served as Chair. During the reporting period, Anna Rulkiewicz was also member of the Committee (until 22 June 2017).

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

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

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

The Audit Committee should consist of at least two independent members, one of whom performs the function of the Committee Chair. At least one member of the Committee should meet the independence requirements referred to in Article 56, para. 3, points 1, 3 and 5 of the Act on Auditors, Their Self-government and the Entities Authorized to Audit Financial Statements, and on Public Supervision, as well as hold qualifications within the field of accounting or financial auditing.

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

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

At least once every year, the Audit Committee meets:

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

2) with the statutory auditor of the Company, without the participation of management;

3) exclusively with the participation of members of the Audit Committee.

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

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

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

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

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

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

Upon consultation with the Deputy Chair of the Committee, the Chair of the Audit Committee may decide on considering a matter in a circular procedure.

Remuneration Committee

The Remuneration Committee is composed of:

1) Andrzej Olechowski – Chair of the Committee;

2) Jenny Grey – Deputy Chair of the Committee;

3) Stanisław Sołtysiński – Member of the Committee;

4) Marc Luet – Member of the Committee (since 5 October 2017).

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

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

The powers and responsibilities of the Remuneration Committee include:

1) evaluating the remuneration paid to members of the Company's Management Board against market criteria;
2) evaluating the remuneration paid to members of the Company's Management Board with respect to the scope of duties of members of the Company's Management Board and their performance;
3) providing the Supervisory Board with recommendations as to the amount of remuneration paid to individual members of the Company's Management Board each time prior to its determination or modification;
4) performing a general assessment of the correctness of the remuneration policy adopted by the Company with respect to its executives not being members of the Management Board;
5) issuing opinions on the policy governing the variable components of remuneration for persons in managerial positions in the Bank;
6) issuing opinions on and monitoring of the variable components of remuneration for persons in managerial positions in the Bank related to risk management and compliance of the Bank with legal provisions and internal regulations.

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

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

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

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

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

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

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

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Frank Mannion – Chair of the Committee;
2) Igor Chalupec – Deputy Chair of the Committee;
3) Marek Belka – Member of the Committee (since 7 December 2017);
4) Marek Kapuściński – Member of the Committee (since 5 October 2017);
5) Marc Luet – Member of the Committee (since 5 October 2017);
6) Andrzej Olechowski – Member of the Committee;
7) Anand Selvakesari – Member of the Committee;
8) Stephen R. Volk – Member of the Committee.

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

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

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

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

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

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

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

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

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

Meetings of the Committee are chaired by the Chair of the Audit Committee. In the Chair's absence, meetings are chaired by the Deputy Chair.

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

Minutes are taken from the Committee's meetings.

12. Good practices in Dom Maklerski Banku Handlowego S.A - company belonging to the Bank's capital group

Dom Maklerski Banku Handlowego S.A. (DMBH) is not a public company, and therefore it is not required to follow the Code of Best Practice for WSE Listed Companies or make any statements in that respect; however, due to its material role in the Group of Companies, the following circumstances should be considered.

DMBH is a member of the Brokerage House Chamber and as such it must follow the Code of Best Practice of Brokerage Houses developed by the Brokerage House Chamber. The Code does not regulate the question of corporate governance, but primarily concerns business secret protection rules, relationships with clients and conduct of brokerage house staff, including relationships with other brokerage houses. DMBH is an entity that is subject to the Act on Trading in Financial Instruments and therefore, apart from the Commercial Companies Code, it follows certain corporate governance rules resulting from the Act and its secondary regulations; among other things, pursuant to Article 103 of the aforementioned Act the Management Board should consist of at least two members with university degrees, at least three years of working experience in financial institutions and favorable references in connection with the functions performed. The Polish Financial Supervision Authority is informed by DMBH of changes in the Management Board. In addition, DMBH must send mandatory reports to the Polish Financial Supervision Authority (including reports on any changes in the composition of the Management Board, or reports on resolutions of the General Meeting). The aforementioned Act also regulates the issue of purchasing shares in the brokerage house. It stipulates that the head office of the brokerage house must be in Poland. Since 1 January 2015, DMBH has been subject to the Corporate Governance Principles for Supervised Institutions ("CGPs") adopted by PFSA resolution of 22 July 2014. CGPs are a set of rules governing the internal and external relations of institutions supervised by the PFSA including their relations with shareholders and clients, their organization, the internal supervision function and key internal functions and systems as well as statutory bodies and their cooperation. CGPs are meant to improve the level of corporate governance at financial institutions and to increase their transparency which is supposed to strengthen confidence in the financial market in Poland. On 23 December 2014, the Management Board of DMBH declared DMBH's willingness to comply with CGPs, and the Supervisory Board approved compliance with the those CGPs that are within the competences of the Supervisory Board. On 27 June 2017, the Supervisory Board approved the report concerning CGP compliance in 2016.

Three CGPs are not applied by DMBH:

a) para. 11, subpara. 2 (related party transactions) – this principle will not be applied in respect of agreements relating to current operating activities;
b) para. 22, subparas. 1 and 2 (independence of the members of the supervisory body) – these principles are not applied taking into account the current composition of the Supervisory Board.

13. Diversity Policy

Bank Handlowy w Warszawie S.A. implements solutions based on diversity, which is the trademark of Citi's corporate culture and the cornerstone of its philosophy.

The diversity integration strategy of Bank Handlowy w Warszawie S.A. consists in promoting a culture which attracts the best of the best; one where people are promoted based on their competencies and skills, where others are appreciated, and where mutual respect is expected; one where everyone has opportunities to grow – regardless of any differences.

Our diversity efforts work on three levels:

- Individual – the Bank entitles people to take responsibility for their own careers and personal development in order to achieve their full potential, regardless of their gender, creed, race, ethnic background, nationality or sexual orientation.
- Team – the Bank strives to ensure an atmosphere of respect, where diverse teams take advantage of a wide range of viewpoints, skills, experiences and approaches.
- Organizational – by encompassing everything that our employees have to offer, our diversity strategy positions the Bank as an employer of choice.

By taking advantage of different perspectives and enabling employees to develop their skills, the Bank emphasizes growth and innovation for our customers and employees, guided by the principle which states that every individual creates the value of what we work towards together.

The Bank strongly supports diversity in its hiring policy; by engaging in talent development, it supports the careers and development of women, who manage important organizational units within Citi Handlowy. In 2017, 51% of new hires from recruitment processes were women, compared to 49% of men. Most managers hired at the Bank are women, who made up 51% of the manager population in 2017.

Over the last 3 years, the average seniority at the Bank hovered around 8 years, with most women working at the Bank having an average seniority of more than 9 years over the last two years. The average seniority at the Bank has been increasing over the last 3 years.

The Bank's business diversity and its specific needs determine the directions and requirements regarding the professional knowledge needed to maintain the highest quality of service for both internal and external customers.

The Bank cares about supporting employee initiatives and involvement in both our company's and others' affairs. Organizations which unite the Bank's employees around a particular activity are good examples. The two biggest and oldest ones in Citi Handlowy are CitiClub and CitiWomen.

Citi Handlowy builds its remuneration policy based on best market practices, taking into account the requirements of corporate governance, market trends and the condition and potential of the organization.

In determining the remuneration of employees, the Bank refers to the experience and competencies required for the position held, performance assessments, current remuneration level, and the employee's position as compared to new employees and the market. The new level of the employee's remuneration is based on this information.

Remuneration levels are verified through a periodical, yearly process, which takes into account the employee's yearly assessment and their skills and duties relative to market research regarding industry remuneration levels.

The pay of the women employed at the Bank is at 98% of the pay of men.

Citi Handlowy cares about the living situation of their employees and offers them a wide range of additional benefits, which make up one of the most generous packages on the market.

The Bank strives to be a company where the best people want to work, where hiring and promoting is done based on achievements, and where development opportunities are universally accessible. Our goal is to create a working environment where responsible finance is practiced, where employees treat each other with respect and dignity, and where they can rely on support with regard to maintaining a work-life balance. The Bank follows diversity rules in its recruitment procedures and adheres to legislation regarding fair hiring and anti-discrimination practices.

The Bank takes preventive measures against discrimination, such as a range of educational efforts to raise awareness with regard to discrimination, unequal treatment and mobbing. It also takes action aimed at fostering an organizational climate which is conducive to fair play in the workplace (primary prevention).

Dialoguing with employees is an important part of the Group's everyday activity. Every employee can access the Bank's intranet, which contains up-to-date information regarding the operation of all the Bank's departments. The most important information concerning the Bank and all changes which take place within the organization are sent directly to the employees' email addresses in our internal newsletter titled "Puls CitiHandlowy".

The Bank's top management team regularly holds town hall meetings with employees. The key information about different business areas, the Bank's financial results, new products, and organizational changes is shared during these meetings. Every employee has an opportunity to ask a question directly to the Board Member leading the meeting and the invited guests.

Moreover, employees can use the internal social media platform named "Citi Collaborate". Its universal availability enables information exchange and tightens the cooperation between employees and the management staff.

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

1. Information regarding the remuneration policy

Remuneration policies concerning persons holding key functions, including persons who have a significant impact on the risk profile at Bank Handlowy w Warszawie S.A. (the Bank) and at Dom Maklerski Banku Handlowego S.A. (DMBH) (a brokerage house which is the Bank's subsidiary) were approved by Resolution of the Bank's Supervisory Board of 3 December 2015 and by Resolution of the DMBH Supervisory Board of 28 December 2015. Both policies were replaced, respectively, by the "Bank Handlowy w Warszawie S.A. Remuneration Policy" (adopted on 22 December 2017) and the "Dom Maklerski Banku Handlowego S.A. Remuneration Policy" (adopted on 3 January 2018), hereinafter collectively referred to as the

"Remuneration Policy".

The Remuneration Policy sets forth the principles of remunerating all staff, including without limitation Key Persons, adopted at the Bank and at DMBH, and it aims to achieve long-term growth of shareholder value and ensure stable operation.

The philosophy underlying the remuneration for the persons covered by the Entitled Person Remuneration Policy adopted by the Group is as follows: the remuneration of individual employees differs based on financial or non-financial criteria such as their approach to taking risks and ensuring compliance with applicable laws, in order to reflect their current or future work performance and to supplement effective risk control mechanisms by reducing incentives to take reckless risks for the Group and its operation and by rewarding well-judged balance between risk and the rate of return. According to this philosophy, the payment of variable remuneration to the persons covered by the Entitled Person Remuneration Policy is dependent on both short-term and long-term assessment of their individual performance and the financial results of the Bank (or respectively of DMBH) or of the relevant business unit; the persons responsible for control functions are not assessed in terms of the results achieved by the units they supervise. The assessment of the Bank's or DMBH's results is based on data for three financial years, which takes into account the business cycle and the risk inherent in the Group's business.

The vesting of individual tranches requires approval respectively by the Supervisory Board with respect to the Management Board and by the Management Board with respect to other employees in each case.

At least 50% of variable remuneration should be awarded in the form of non-cash instruments whose value is closely linked to the Bank's or DMBH's financial results. This condition is fulfilled by the phantom shares used by the Group, whose value will fluctuate depending on the market value of the Bank's shares. In the case of DMBH, under the Remuneration Policy adopted on 3 January 2018 the value of phantom shares depends on the value of DMBH's ordinary shares. The remainder of the variable remuneration is a cash award; deferred tranches of the award will include interest for the period from the granting until the disbursement of the remuneration portion in question.

The vesting of each tranche of the deferred award will depend on the Bank's or respectively DMBH's results in the calendar year immediately preceding the date of vesting of each individual tranche.

The remuneration policy for this group of employees is described in more detail in the Report on Capital Adequacy, Risk and Remuneration Policy of the Bank Handlowy w Warszawie S.A. Group of Companies as at 31 December 2017.

The Bank's Management Board favorably assesses the operation of the Remuneration Policy in force at the Bank.

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

The total amount of salaries, awards and short-term benefits paid to current and former members of the Bank's Management Board in 2017:

PLN'000	Salaries, awards and short-term benefits	
	Base salaries and awards	Other benefits
Sławomir S. Sikora	2,025	282
Maciej Kropidłowski	2,030	228
David Mouillé	1,912	744
Barbara Sobala	958	95
Witold Zieliński (1)	1,127	117
Katarzyna Majewska	942	96
Czesław Piasek	1,207	120
Former members of the Management Board:		
Iwona Dudzińska (2)	-	7
	10,201	**1,689**

(1) In employment until 18 February 2018
(2) In employment until 31 July 2015

The total amount of salaries, awards and short-term benefits paid to current and former members of the Bank's Management Board in 2016:

PLN'000	Salaries, awards and short-term benefits	
	Base salaries and awards	Other benefits
Sławomir S. Sikora	2,025	328
Maciej Kropidłowski	1,877	196
David Mouillé	1,562	844
Barbara Sobala	934	93
Witold Zieliński	1,131	124
Katarzyna Majewska (1)	766	449
Czesław Piasek	1,193	121
Former members of the Management Board:		

PLN'000	Salaries, awards and short-term benefits	
	Base salaries and awards	Other benefits
Brendan Carney (2)	304	-
Iwona Dudzińska (3)	122	39
Misbah Ur-Rahman-Shah (4)	-	22
Michał H. Mrożek(5)	-	13
	9,914	**2,229**

(1) In employment since 11 January 2016
(2) In employment until 22 June 2015
(3) In employment until 31 July 2015
(4) In employment until 18 March 2014
(4) In employment until 28 February 2011

"Base salaries and awards" include gross base salary well as awards paid in 2017 and 2016.

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

"Equity awards granted in 2017" include the value of Citigroup shares and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

PLN'000	Capital assets granted	
	granted for year 2016	granted for years 2013-2015
Sławomir S. Sikora	589	1,781
Maciej Kropidłowski	594	988
David Mouillé	532	101
Barbara Sobala	156	181
Witold Zieliński(1)	214	290
Katarzyna Majewska(2)	153	-
Czesław Piasek	194	250
Former members of the Management Board:		
Brendan Carney (3)	-	521
Iwona Dudzińska (4)	-	164
Misbah Ur-Rahman-Shah (5)	-	1,341
Robert Daniel Massey JR (6)	-	63
	2,432	**5,680**

(1) In employment until 18 February 2018
(2) In employment since 11 January 2016
(3) In employment until 22 June 2015
(4) In employment until 31 July 2015
(5) In employment until 18 March 2014
(6) In employment until 19 June 2013

"Equity awards granted in 2016" include the value of Citigroup shares and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

PLN'000	Capital assets granted	
	granted for year 2015	granted for years 2011-2014
Sławomir S. Sikora	638	2 386
Maciej Kropidłowski	487	464
David Mouillé	218	-
Barbara Sobala	145	153
Witold Zieliński	236	330
Katarzyna Majewska(1)	-	-
Czesław Piasek	196	177
Former members of the Management Board:		
Brendan Carney (2)	303	248
Iwona Dudzińska (3)	125	225
Misbah Ur-Rahman-Shah (4)	-	1 795

PLN'000	Capital assets granted	
	granted for year 2015	granted for years 2011-2014
Robert Daniel Massey JR (5)	-	207
Sonia Wędrychowicz-Horbatowska (6)	-	138
Michał H. Mrożek(7)	-	77*
	2,348	**6,200**

(1) In employment since 11 January 2016
(2) In employment until 22 June 2015
(3) In employment until 31 July 2015
(4) In employment until 18 March 2014
(5) In employment until 19 June 2013
(6) In employment until 13 May 2012
(7) In employment until 28 February 2011
** refers to 2015*

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Supervisory Board in 2017 and 2016:

PLN'000	2017	2016
Andrzej Olechowski	402	402
Igor Chalupec	276	276
Mirosław Gryszka(1)	221	246
Marek Kapuściński(2)	230	41
Anna Rulkiewicz(3)	121	216
Stanisław Sołtysiński	216	216
Shirish Apte	241	246
Marek Belka(4)	66	
Dariusz Mioduski(5)	-	126
	1,773	**1,769**

(1) In employment until 5 December 2017
(2) In employment since 22 September 2017
(3) In employment until 22 June2017
(4) In employment since 22 June2017
(5) In employment until 30 June 2016

The remuneration paid and due in 2017 to persons managing subsidiaries amounted to t PLN 3,783 thousand (in 2016: PLN 4,640 thousand).

Persons supervising subsidiaries did not collect any remuneration for their services in 2017 and 2016.

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

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2017 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Katarzyna Majewska	-	-	29	1
Czesław Piasek	-	-	2,550	89
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Shirish Apte	-	-	100,000	3,481
Frank Mannion	-	-	28,091	978
Anand Selvakesari	-	-	21,099	735
Marc Luet	-	-	23,007	801

	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)
Stephen R. Volk	-	-	135,559	4,719

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2016 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Sławomir S. Sikora	-	-	23,204	970
Maciej Kropidłowski	-	-	803	34
David Mouillé	-	-	-	-
Barbara Sobala	-	-	206	9
Witold Zieliński	-	-	-	-
Katarzyna Majewska			29	1
Czesław Piasek	-	-	2,250	94
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Shirish Apte	-	-	143,822	6,011
Jenny Grey	-	-	654	-
Frank Mannion	-	-	36,024	1,506
Anand Selvakesari			16,490	-
Zdenek Turek	-	-	37,552	1,569
Stephen R. Volk	-	-	137,445	5,744

As at 31 December 2017 and 31 December 2016, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

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

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

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

5. Management policy

The management policy of the Bank did not change in 2017. The policy is described in the Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

XII. Agreements concluded with the registered audit company

On 22 March 2017 the Supervisory Board of the Bank appointed the auditor: KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa [KPMG Audyt limited liability partnership] with its registered office in Warsaw, operating at the following address: ul. Inflancka 4A, 00-189 Warszawa entered into the list of entities authorized to audit financial statements under No. 3546, 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 years 2017 and 2018. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa was selected in compliance with the applicable laws and auditing standards.

The Bank used the services of KPMG Audit Spółka z ograniczoną odpowiedzialnością sp. k. with respect to auditing and reviewing stand-alone and consolidated financial statements for 2012 and in previous years.

An audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for

2016 was made by PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, operating at the following address: Al. Armii Ludowej 14, registered audit company No. 144, to conduct an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for 2016. PricewaterhouseCoopers Sp. z o.o. was selected in compliance with the applicable laws and auditing standards by the Supervisory Board of the Bank on 11 March 2016.

The auditor's net fees under the agreements (paid or payable) for the years 2017 and 2016 are presented in the table below:

PLN'000	For the year	2017	2016
Bank (the parent company) audit fees (1)		421	369
Bank (the parent company) review fees (2)		177	153
Subsidiary companies audit fees (3)		227	178
Other assurance fees (4)		145	158
		970	**858**

(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 2017 signed on 30 June 2017).

(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 2017 signed on 30 June 2017).

(3) The audit fees include fees paid or payable for the audit of the financial statements of the Bank's subsidiaries.

(4) The fees for other assurance services include all other fees paid to the auditor. These fees include assurance services related to the audit and review of the financial statements not mentioned in points (1), (2) and (3) above.

XIII. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, composed of: Mr. Sławomir S. Sikora, President of the Management Board; Mr. Maciej Kropidłowski, Vice-President of the Management Board; Mr. David Mouillé, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Ms. Katarzyna Majewska, Member of the Management Board and Mr. Czesław Pasek, Member of the Management Board, the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2017 were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of the assets and the financial position as well as the financial profit or loss of the Bank. The Annual Report on the Activities of Bank Handlowy w Warszawie S.A and the Capital Group of Bank Handlowy w Warszawie S.A. for 2016 contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main risks) of the Bank in 2017.

Selection of the auditor authorized to audit the financial statements

The entity authorized to audit financial statements KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, has audited the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2017 and was selected in compliance with legal regulations. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa and the registered auditors auditing the financial statements met the conditions necessary for issuing an impartial and independent auditor's opinion on the audited financial statements consistently with the applicable legal regulations and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws No. from 2014 item 133, as amended), in particular transactions with related companies and guarantees and sureties granted are included in the Annual Consolidated Financial Statements of the Capital Group of the Bank

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Signatures of Management Board Members

Date	Name	Position/function	Signature
21.03.2018	Sławomir S. Sikora	President of the Management Board	
21.03.2018	Maciej Kropidłowski	Vice-President of the Management Board	
21.03.2018	David Mouillé	Vice-President of the Management Board	
21.03.2018	Barbara Sobala	Vice-President of the Management Board	
21.03.2018	Katarzyna Majewska	Member of the Management Board	
21.03.2018	Czesław Piasek	Member of the Management Board	
21.03.2018	Natalia Bożek	Vice-President of the Management Board	