TRANSLATION

REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN THE FIRST HALF OF 2016

AUGUST 2016

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I. Poland's economy in the first half of 2016

1. Macroeconomic conditions and the situation in money and foreign exchange markets

Domestic demand, mostly household consumption, was still the primary driver of economic growth in the first half of the year, which has probably remained slightly above 3%. At the same time, fixed asset investment probably dropped over the six months in question, but the contribution of gross accumulation has most likely remained positive. As opposed to 2015, the contribution of net exports has been negative. Monthly economic data point to a slight recovery in GDP growth in the second quarter 2016 after the surprising slowdown in the first quarter to 3% YoY from 4.3% YoY in the fourth quarter 2015.

Industrial production growth fell to 4.1% YoY in the first half of 2016 from 5.1% in the second half of 2015 and 4.9% in the entire 2015. At the same time, exports slowed much more from January to May – to 1.3% from 7.9% YoY in the second half and 8.5% in the entire previous year. Imports also slowed down to 1.6% YoY from 5.7% in the second half of 2015 and 4.9% in the entire 2015. Simultaneously, however, from April to June the seasonally adjusted PMI remained at a level similar to that recorded in the second half of 2015, i.e. slightly above 52 points. On the other hand, industrial production growth accelerated in the second quarter compared to the first quarter, which is in line with the scenario of recovery in economic activity after a weak first quarter. Construction output still struggles; it fell by 12.2% YoY in the first half of 2016 as compared to a decrease of 0.4% YoY in the second half of 2015 and an increase of 0.7% in the entire 2015. The significant decrease in construction output, related, inter alia, to a smaller inflow of EU funds this year, has been reflected in a decline in investment in the first quarter and will also adversely affect fixed asset investment in the coming quarters.

The chief growth driver remains household consumption, which accelerated to 3.2% YoY in the first quarter and in the second quarter it was most probably higher. The main fundamental factor that has a positive effect on consumption is the robust condition of the labor market. In the first half of 2016, wage growth accelerated to 4.2% YoY from 3.5% in the first half of 2015 and in the entire 2015 in June, it reached 5.3%, i.e. the highest level since the beginning of 2012. In turn, employment growth accelerated to 2.7% YoY from 1.1% in the second half of 2015 and in the entire 2015. Taking the persistent deflation into account, this was reflected in an acceleration in real payroll growth to 8% from 5.4% in the second half of 2015 and 5.6% in 2015. Favorable figures from the labor market are gradually translating into retail sales data – in real terms, retail sales accelerated to 4.8% YoY from 4.1% in the second half of 2015 and 4.2% in the entire 2015. In addition, the unemployment rate is gradually decreasing, and in June 2016 it reached the historic low of 8.8%, which was also recorded in October 2008. The 500+ (child allowance) program positively affects consumption prospects.

In the first half of 2016, average inflation decreased to -0.9% YoY compared to -0.6% YoY in the second half of 2015, but was at a level similar to the entire 2015. The increase in prices has remained subdued owing to low oil and food prices, but also low core inflation readings.

Despite the persistent deep deflation, the Monetary Policy Council (MPC) maintained the National Bank of Poland benchmark rate unchanged at 1.50%. During the first three months of the year, the terms of office of eight out of nine members of the MPC expired and new members were appointed to replace them. The new Council, like the previous one, signals that currently there is no need for adjustments to monetary policy.

In the first half of 2015, the Polish zloty depreciated against the euro and strengthened slightly against the U.S. dollar. The EUR/PLN exchange rate rose to 4.38 from 4.26 at the end of the previous year. The USD/PLN exchange rate fell to 3.92 from 3.90 respectively. The Polish zloty remained in a downward trend against the euro and fluctuated in the 4.20–4.50 range, exceeding the upper boundary momentarily at the beginning of the year and in June after the announcement of the result of the Brexit vote in the UK. At the same time, in the first half of 2016, the U.S. dollar depreciated against the euro, which made the zloty perform better against the dollar.

In the debt market, in the first half of 2016 there was an increase in yields on the short end and a decrease on the long end of the yield curve, which caused it to flatten. Lower yields were promoted by inflation figures, which surprised on the downside, declines in yields in core debt markets, downward revisions of economic growth forecasts and for some time continued expectations of an interest rate cut in connection with the appointment of new members of the Monetary Policy Council. The weaker zloty and comments by new MPC members limited interest rate cut expectations and contributed to an increase in short-term yields. Yields of 2-year bonds stood at 1.66% at the end of June 2016 compared to 1.62% at the end of 2015. On the other hand, the yield on 10-year bonds dropped to 2.91% at the end of June from 2.94% at the end of 2015. 3M WIBOR stood at 1.67% at the end of March 2016 compared to 1.72% at year end 2015.

2. Capital market

On the equity market, the first three months of the first half of 2016 were marked by positive sentiment on the Warsaw Stock Exchange, which was supported by a rebound in the commodity market and the easing of monetary policy by the Fed as well as by very good macroeconomic data readings. On the other hand, second quarter saw a significant downturn due to, inter alia, the surprising outcome of the referendum on the UK's future in the EU, concerns about the planned changes to the operation of pension funds as well as the uncertainty surrounding the shape of the act on mortgage loan currency conversion.

Since the beginning of 2016, all the major indices have lost ground. The WIG broad market index has dropped by 3.7%. The WIG20 blue chip index has lost the most (-5.8%), while the mWIG40, which includes mid-cap companies, has recorded a decrease of 4.9%. Against this background, the smallest companies have performed relatively well, with the sWIG80 down by just 0.3%. Among the sector subindices, the chemical companies' sector has dropped significantly (-25.2%). Companies from the telecommunications and construction sectors, which were down by 16.3% and 12.9% respectively, have fared badly as well. Among the indices that actually went up, of note are commodity companies (an increase of 7.3% compared to the level at the end of 2015) and IT ones (up by 6.4%).

The first half of the year brought a slight decrease in the number of companies first listed on the Warsaw Stock Exchange compared to the same period of 2015. During this time, a total of nine new companies entered the main WSE market, including three that were transferred from the New Connect one (a year earlier there were ten such new listings). However, in terms of the value of public offerings, the primary market was clearly weaker than in the first half of 2015, with the total IPO value in excess of PLN 365 million compared to over PLN 1.3 billion in the first six months of 2015.

As at the end of June, shares in 483 companies (including 430 domestic ones) were listed on the main WSE market and their overall market capitalisation slightly exceeded PLN 913 billion (a decrease of almost 25% year-on-year and of 16% compared to the end of 2015).

Warsaw Stock Exchange (WSE) Equity Indices as of June 30, 2016

Index	30.06.2016 (1)	31.12.2015 (2)	Change (%) (1)/(2)	30.06.2015 (3)	Change (%) (1)/(3)
WIG	44,748.53	46,467.38	(3.7%)	53,328.98	(16.1%)
WIG-PL	45,543.29	47,412.44	(3.9%)	54,697.00	(16.7%)
WIG-div	920.82	958.66	(3.9%)	1,178.57	(21.9%)
WIG20	1,750.69	1,859.15	(5.8%)	2,317.84	(24.5%)
WIG20TR	2,911.51	3,054.29	(4.7%)	3,742.78	(22.2%)
WIG30	1,955.69	2,075.51	(5.8%)	2,540.32	(23.0%)
mWIG40	3,393.01	3,567.05	(4.9%)	3,685.49	(7.9%)
sWIG80	13,177.86	13,211.23	(0.3%)	12,901.55	2.1%
Sector sub-indices					
WIG-Banks	5,687.18	6,086.60	(6.6%)	7,397.98	(23.1%)
WIG-Construction	2,548.61	2,926.28	(12.9%)	2,666.88	(4.4%)
WIG-Chemicals	12,311.84	16,458.51	(25.2%)	14,197.29	(13.3%)
WIG-Developers	1,603.35	1,513.35	5.9%	1,369.31	17.1%
WIG-Energy	2,682.73	2,928.40	(8.4%)	4,162.55	(35.6%)
WIG-IT	1,714.45	1,611.73	6.4%	1,639.99	4.5%
WIG-Media	4,156.73	3,942.07	5.4%	4,204.91	(1.1%)
WIG-Fuel	4,696.12	4,468.32	5.1%	5,036.24	(6.8%)
WIG-Food	3,614.07	3,420.99	5.6%	2,945.16	22.7%
WIG-Commodities	2,099.64	1,956.85	7.3%	3,182.74	(34.0%)
WIG-Telecoms	676.23	807.99	(16.3%)	968.10	(30.1%)

Source: WSE, Dom Maklerski Banku Handlowego S.A. ("DMBH")

Equity, bond and derivatives trading volumes on WSE in the first half of 2016

	1st half of 2016	Change (%) 1H16/2H15	2nd half of 2015	Change (%) YoY	1st half of 2015
Equity (PLN million)*	179,581	(19.4%)	222,684	(21.2%)	227,890
Bonds (PLN million)	1,163	11.6%	1,042	51.8%	766
Futures ('000 contracts)	7,499	(0.2%)	7,517	(6.5%)	8,017
Options ('000 contracts)	352	(25.9%)	475	(12.2%)	401

** figures excluding calls*
Source: WSE, DMBH

The domestic equity market was still under pressure from falling turnover. In the first half of 2016, the investors' activity in this segment clearly declined (by 19.4% within half a year and 21.2% YoY) to PLN 179.6 billion.

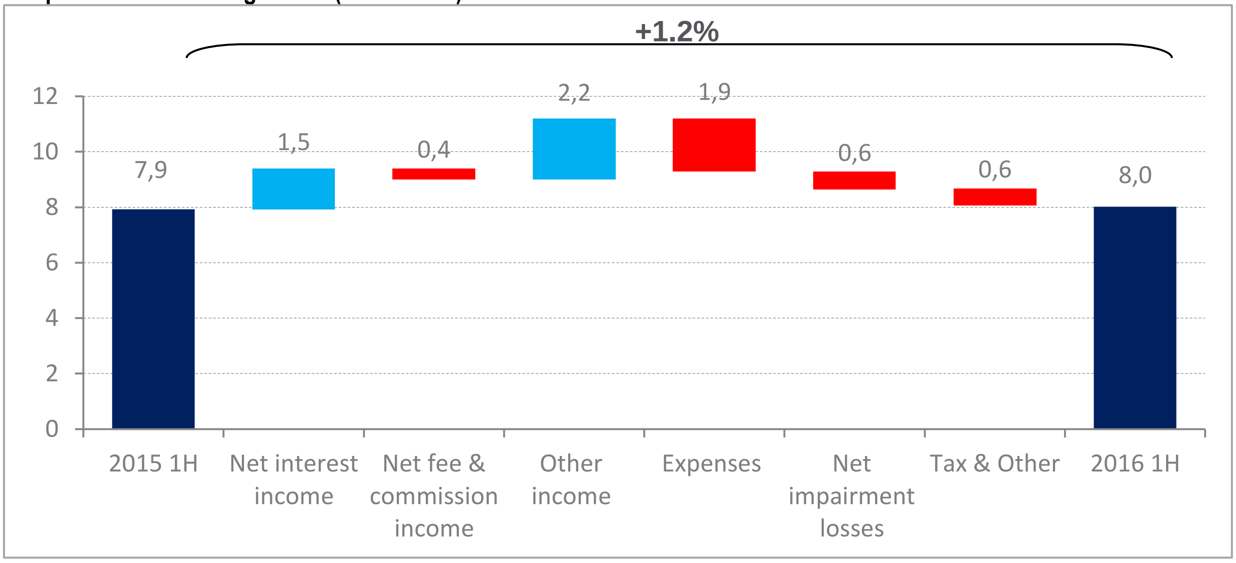
In the first half of 2016, turnover on the bond market amounted to PLN 1.16 billion, which translates to an increase of 11.6% compared to the second half of 2015 and 51.8% compared to the same period of the previous year.

In the first six months of the year, the volume of trading in forward and futures contracts shrank by about 6.5% YoY to 7.5 million units. This level was similar to the turnover recorded in the preceding six months.

The volume of trade in options was 352,000 units and was on a decrease both in annual terms (-12.2%) and compared to the second half of 2015 (-25.9%).

3. Banking sector

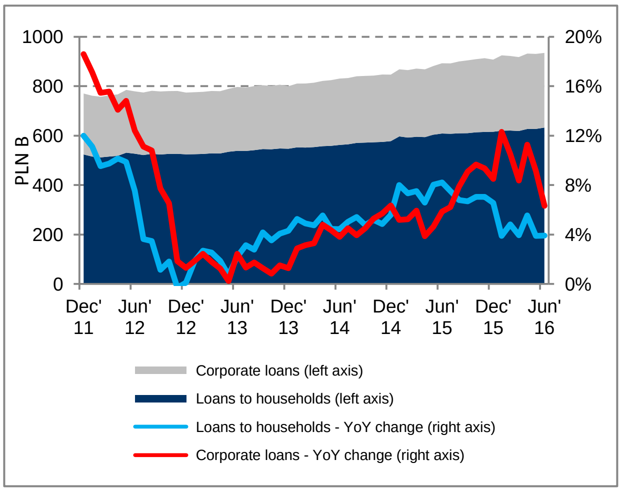
Net profit of the banking sector (PLN billion)



Source: NBP, own calculations

According to NBP figures, profit after tax in the banking sector grew slightly in the first half of 2016 by +1.2% YoY (PLN 97 million) to the level of PLN 8.0 billion. One of the two main drivers of this improvement was an increase in net interest income by 8.6% YoY (PLN +1.5 billion). On the other hand, the result on fees and commissions fell below the last year's level by 5.9% YoY (PLN -396 million). The result on other banking operations was the second factor improving earnings in the first half of 2016, rising as much as 45.5% YoY (PLN +2.2 billion). This was primarily the result of the acquisition of Visa Europe by Visa Inc. (which was settled in June); the banking sector recorded a high non-recurring income in this connection. As a result, the total income of the banking sector increased by PLN 3.3 billion to PLN 31.8 billion. A factor which depressed the net result of the banking sector was the considerable increase in expenses by 12.5% YoY (PLN +1.9 billion) caused by the banking tax, which was introduced in February 2016. As a result of the changes above, the efficiency of the sector as measured by its cost/income ratio has deteriorated with the ratio rising from 53.6% in the first half of 2015 to 54.1% in the first half of 2016. Net impairment write-offs increased by 18.2% YoY (PLN +649 million) despite improvements in the quality of the loan portfolio as reflected by the NPL ratio (by 0.7 p.p. YoY to 7.3% for non-financial customers). The most important improvement was recorded for the corporate loan portfolio for which the ratio of non-performing loans (NPL) decreased during the year by 1.3% p.p. to the level of 9.6% at the end of June 2016. The improvement of the ratio took place both in the area of loans granted to large enterprises (-1.5 p.p. YoY to the level of 7.3%) as well as in loans to small and medium-sized enterprises (-1.1 p.p. YoY to the level of 11.3%). In the portfolio of loans granted to households the NPL ratio also improved, but to a much smaller extent than in the case of enterprises (-0.4 p.p. to the level of 6.2%). The improvement was reported primarily in the mortgage loan area (-0.5 p.p. to the level of 2.9%) while consumer loans remained almost unchanged at 12.2%.

Loans granted to corporate entities and households

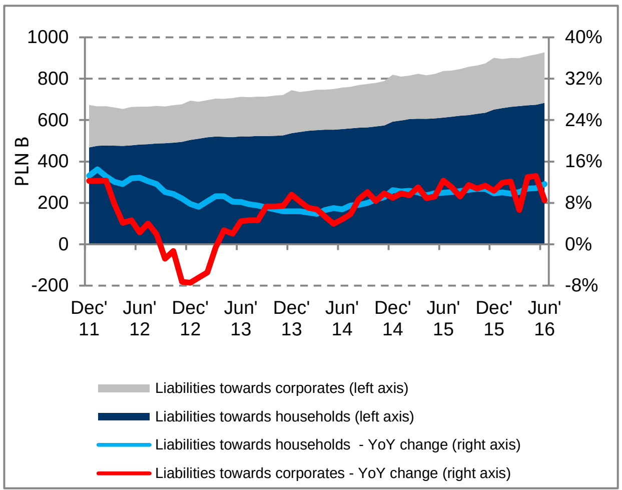


Source: NBP, own calculations

The growth rate of loans to non-financial customers gradually decreased in the last six months, reaching 6.1% YoY at the end of June 2016 (PLN +51.5 billion). Loans to corporates increased by 6.3% YoY, amounting to PLN 301.9 billion by mid-2016. Taking into account the purpose of the loans contracted by enterprises, the highest growth was reported for investment loans (+9.9% YoY), and strong growth was also noticeable for loans that finance real estate purchases (+7.5% YoY at the end of the first half 2016). However, by the term for which loans were contracted the highest growth was reported for long-term loans, which were granted for a period of more than five years (+8.5% YoY), while the volumes of short-term loans granted for a period of less than a year and of medium-term loans granted for a period from one to five years rose by 5.0% YoY and 5.5% YoY respectively.

The volumes also increased in the loans to households category (3.9% YoY, PLN +23.9 billion to PLN 632.6 billion). Consumer loans accelerated significantly in the last six months to 8.1% YoY (PLN +11.4 billion). The opposite trend was observed in loans financing real estate purchases whose growth dropped significantly to 2.7% YoY (PLN +10.2 billion) at the end of June 2016. The volume of real estate loans reached PLN 393.8 billion. The slowdown in lending for real estate financing purposes has been primarily due to a significant drop in the volume of foreign currency loans (-5.1% YoY, PLN -9.0 billion). Household mortgages expressed in domestic currency increased by 9.2% YoY, i.e. PLN 19.2 billion as at the end of June 2016.

Corporate and retail deposits

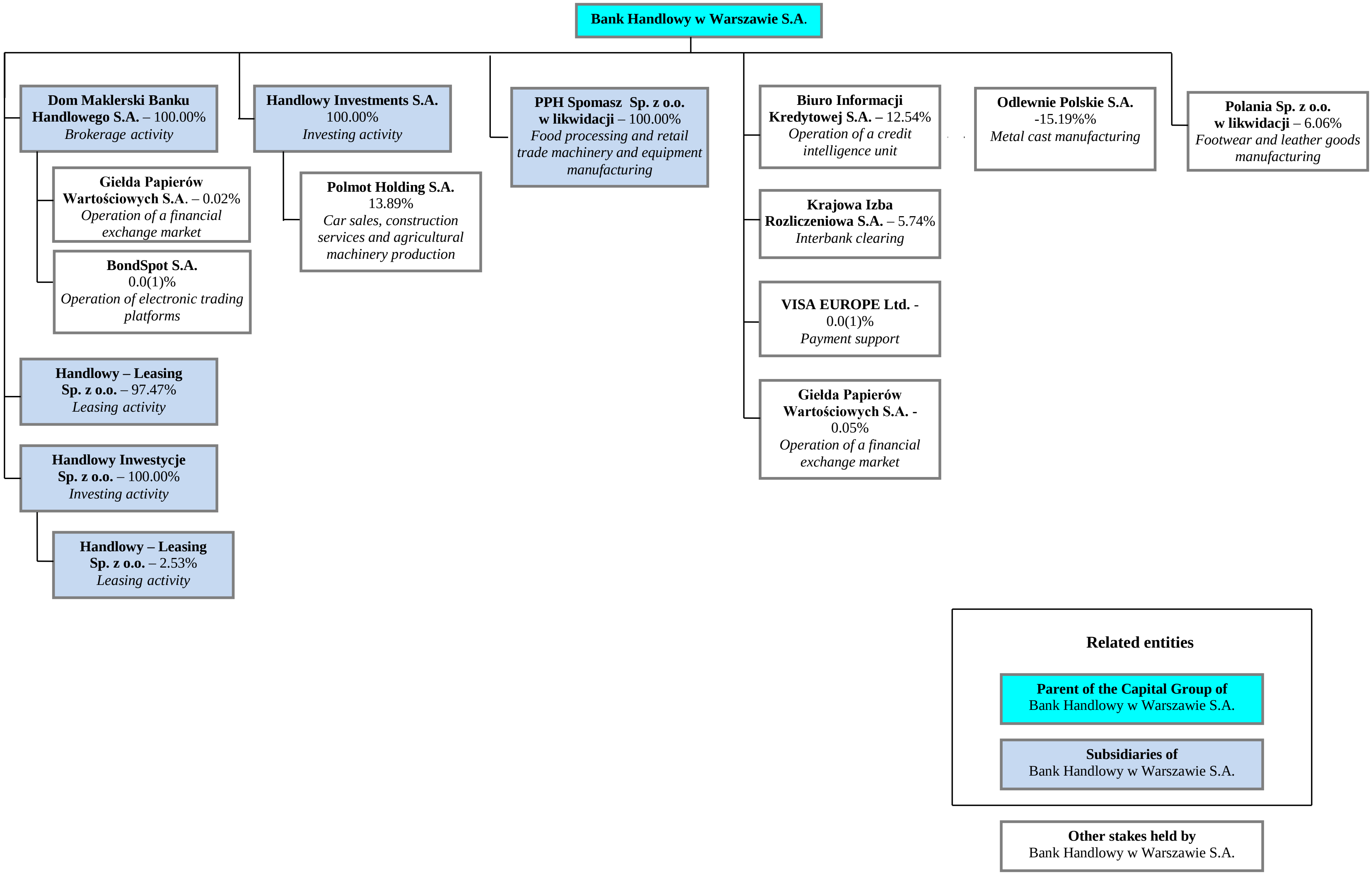


Source: NBP, own calculations

Corporate deposits increased by 8.5% YoY (PLN +19.0 billion to PLN 244.0 billion). This growth was largely due to a still high momentum of current deposits (+14.0% YoY to PLN 144.9 billion). Time deposits rose by 1.3% YoY (volume increase to PLN 99.1 billion) as at the end of the first half 2016. Household deposits also reported a significant increase in volume. Their balance grew by 11.6% YoY (PLN +71.3 billion to PLN 683.2 billion). Just like for corporate deposits, the growth was mainly driven by current deposits (increase of 15.7% YoY, PLN +50.0 billion to PLN 369.1 billion) and to a lesser extent by time deposits, whose volume increased by 7.3% YoY (PLN +21.3 billion to PLN 314.2 billion).

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

The organizational chart below depicts the structure of the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as of June 30, 2016; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego S.A. – 100.00% *Brokerage activity*
Giełda Papierów Wartościowych S.A. – 0.02% *Operation of a financial exchange market*
BondSpot S.A. 0.0(1)% *Operation of electronic trading platforms*
Handlowy – Leasing Sp. z o.o. – 97.47% *Leasing activity*
Handlowy Inwestycje Sp. z o.o. – 100.00% *Investing activity*
Handlowy – Leasing Sp. z o.o. – 2.53% *Leasing activity*
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. w likwidacji – 100.00% *Food processing and retail trade machinery and equipment manufacturing*
Biuro Informacji Kredytowej S.A. – 12.54% *Operation of a credit intelligence unit*
Krajowa Izba Rozliczeniowa S.A. – 5.74% *Interbank clearing*
VISA EUROPE Ltd. - 0.0(1)% *Payment support*
Giełda Papierów Wartościowych S.A. - 0.05% *Operation of a financial exchange market*
Odlewnie Polskie S.A. -15.19%% *Metal cast manufacturing*
Polania Sp. z o.o. w likwidacji – 6.06% *Footwear and leather goods manufacturing*
Related entities
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiaries of Bank Handlowy w Warszawie S.A.
Other stakes held by Bank Handlowy w Warszawie S.A.

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

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

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2016
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	6,501,807
Dom Maklerski Banku Handlowego S.A. ("DMBH")	Brokerage activities	subsidiary	100.00%	full consolidation	100,364
Handlowy - Leasing Sp. z o.o.	Leasing activities	subsidiary	100.00%**	full consolidation	35,316
Handlowy Investments S.A.	Investing activity	subsidiary	100.00%	full consolidation	18,868
PPH Spomasz Sp. z o.o. w likwidacji	Ceased operations	subsidiary	100.00%	full consolidation	Entity under liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2016*
*** Including indirect participations*

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2016
Handlowy Inwestycje Sp. z o.o.	Investing activity	subsidiary	100.00%	equity valuation	10,912

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

1. Summary financial data of the Group

PLN million	30 Jun 2016	31 Dec 2015
Total assets	44,183.3	49,506.8
Total equity	6,558.7	6,850.7
Amounts due from customers*	17,866.8	18,975.5
Customer deposits*	31,404.3	31,275.5
Net profit	326.3	626.4
Total capital adequacy ratio	17.0%	17.1%

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

2. Financial result of the Group for the first half of 2016

The following financial results are presented on the basis of the abridged semi-annual financial statement of the Group for the period of the first 6 months of the year ended June 30, 2016.

2.1 Income statement

In the first half of 2016 the Group delivered a consolidated net profit of PLN 326.3 million, down by PLN 40.9 million (or 11.1%) compared to PLN 367.2 million in the first half of 2015. The consolidated profit before tax in the first half of 2016 amounted to PLN 408.6 million, down by PLN 50.4 million compared to the corresponding period of the previous year.

At the same time the revenues of the Group dropped by PLN 20.0 million (or 1.8%) to PLN 1,068.8 million mainly due to lower Treasury result, partially offset by the proceeds from the settlement of the acquisition of VISA Europe Limited by Visa Inc.

In the first half of 2016 the Group consistently continued its cost control policy as a result of which operating costs, general administrative expenses and depreciation dropped by PLN 10.1 million (or 1.6%) to PLN 614.3 million primarily due to lower administrative expenses.

The net impairment due to financial assets and provisions value losses for granted financial and guarantee liabilities amounted to PLN -14.5 million compared to PLN -5.5 million in the corresponding period of the previous year as a result of a greater level of write-offs in the Consumer Bank.

Selected income statement items

PLN'000	1st half of 2016	1st half of 2015	Change PLN'000	Change %
Net interest income	499,721	496,786	2,935	0.6%
Net fee and commission income	281,753	310,032	(28,279)	(9.1%)
Dividend income	7,334	7,177	157	2.2%
Net income on trading financial instruments and revaluation	145,236	157,626	(12,390)	(7.9%)
Net gain on investment debt securities available-for-sale	20,925	118,800	(97,875)	(82.4%)
Net gain on investment equity instruments available-for-sale	93,907	-	93,907	-
Net loss on hedge accounting	7,561	910	6,651	730.9%
Net other operating income	12,319	(2,567)	14,886	-
Total income	**1,068,756**	**1,088,764**	**(20,008)**	**(1.8%)**
General administrative expenses and depreciation:	(614,288)	(624,375)	10,087	(1.6%)
General administrative expenses	(578,394)	(589,262)	10,868	(1.8%)
Depreciation and amortization	(35,894)	(35,113)	(781)	2.2%
Profit on sale of non-financial assets	87	72	15	20.8%
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(14,492)	(5,484)	(9,008)	164.3%
Share in net profits/losses of entities valued at equity method	78	48	30	62.5%
Tax on some financial institutions	(31,512)	-	(31,512)	-
Profit before tax	**408,629**	**459,025**	**(50,396)**	**(11.0%)**
Income tax expense	(82,280)	(91,808)	9,528	(10.4%)
Net profit	**326,349**	**367,217**	**(40,868)**	**(11.1%)**

2.1.1 Revenues

Net interest income in the first half of 2016 amounted to PLN 499.7 million compared to PLN 496.8 million in the corresponding year in 2015, up by PLN 2.9 million (or 0.6%), despite the low interest rate environment.

Interest income in the first half of 2016 increased by PLN 24 million (or 4.0%) compared to the corresponding period of 2015 to PLN 623.6 million. Amounts from customers, which are the main source of interest income, amounted to PLN 403.0 million, up by PLN 15.4 million (or 4.0%) compared to the first half of 2015, due to credit volume growth. A significant increase in interest income was also reported for the portfolio of debt securities available-for-sale, up by PLN 35.7 million (or 27.3%) associated with an increase in the volume of these instruments. At the same time interest income from debt securities held-for-trading decreased by PLN 16.7 million (or 32.7%).

Interest expense in the first half of 2016 increased by PLN 21.0 million (or 20.4%) compared to the corresponding period of 2015 and amounted to PLN 123.9 million. The main reason for the increase was higher interest expense due to amounts due banks by PLN 13.0 million (or 89.5%) and due to derivatives in hedge accounting by PLN 8.5 million (or 215.0%). At the same time interest expense due to amounts due to non-financial sector entities dropped by PLN 3.5 million (or 6%), as a result of a lower average interest rate on deposits accompanied by their volume growth.

Net fee and commission income in the first half of 2016 amounted to PLN 281.8 million compared to PLN 310.0 million in the corresponding period of 2015 – down by PLN 28.3 million (or 9.1%), primarily due lower insurance and investment products (agency) income as a result of the weakening of the market sentiment. The payment and credit cards fee and commission income declined due to higher credit card acquisition costs.

Net income on trade financial instruments and revaluation in the first half of 2016 amounted to PLN 145.2 million compared to PLN 157.6 million in the corresponding period of 2015 – down by PLN 12.4 million (or 7.9%), due to adverse changes in the market environment in the interbank market activity.

Net gain on investment debt securities in the first half of 2016 amounted to PLN 20.9 million, down by PLN 97.9 million (or 82.4%) compared to the corresponding period of the previous year.

Net gain on capital investment instruments available-for-sale in the first half of 2016 amounted to PLN 93.9 million due to the recognition in the Bank's statements of a settlement of a transaction of acquisition of Visa Europe Limited by Visa Inc. For details of the transaction see Note 22 in the Abbreviated Semi-Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A.

Net other operating income in the first half of 2016 amounted to PLN 12.3 million, up by PLN 14.9 million compared to the corresponding period of the previous year due to one-offs, i.e. reimbursement of VAT and reversal of the provision on litigation.

2.1.2 Expenses

In the first half of 2016 the Group's general administrative and depreciation expenses amounted to PLN 614.3 million compared to PLN 624.4 million in the corresponding period of 2015. A decrease of PLN 10.1 million (or 1.6%) was primarily a consequence of lower administrative costs by o 9,4 million (or 3.2%) due to lower telecommunication fees and hardware purchases as well as lower costs of external services including advisory, audit, consulting services and other external services. Additionally, staff expenses dropped by PLN 1.5 million due to reduced headcount.

2.1.3 Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees

Net impairment losses and provisions

PLN'000	1st half of		Change	
	2016	**2015**	**PLN'000**	**%**
Net impairment losses incurred but not reported (IBNR)	(4,630)	8,421	(13,051)	-
Net impairment losses on loans and provisions for financial and guarantee liabilities	(11,644)	(15,630)	3,986	(25.5%)
classifiable (individual assessment)	9,813	(8,547)	18,360	-
delinquency managed (portfolio assessment)	(21,457)	(7,083)	(14,374)	202.9%
Other	1,782	1,725	57	3.3%
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	**(14,492)**	**(5,484)**	**(9,008)**	**164.3%**

For the first half of 2016 net impairment due to financial assets and provisions value losses for granted financial and guarantee liabilities amounted to PLN -14.5 million compared to PLN -5.5 million in the first half of 2015. The Institutional Banking Segment reported a decline in net impairment losses by PLN 18.2 million mainly due to higher level of reversals of provisions for individually assessed impaired loans. The Consumer Banking Segment reported an increase net impairment write-offs of PLN 27.2 million caused by diminished expectations of recoveries from the impaired portfolio along with the increase in the average age of this portfolio.

2.1.4 Tax on assets of certain financial institutions

In accordance with the Act on tax on assets of certain financial institutions dated February 1, 2016 assets of banks are subject to taxation at a monthly rate of 0.0366%. The taxation base is the total value of the taxpayer's assets over and above the tax-free threshold of PLN 4 billion and reduced by the value of own funds and Treasury securities. The total bank tax burden for the P&L account of the Capital Group of Bank Handlowy w Warszawie S.A. for the first six months of 2016 amounted to PLN 31.5 million.

2.1.5 Ratio analysis

Selected financial ratios

	1st half of 2016	1st half of 2015
Return on equity (ROE) *	9.4%	12.4%
Return on assets (ROA) **	1.2%	1.6%
Cost/Income (C/I)	57.5%	57.3%
Non-financial sector loans to non-financial sector deposits	64%	74%
Non-financial sector loans to total assets	39%	32%
Net interest income to total revenue	47%	46%
Net fee and commission income to total revenue	26%	28%

** 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.*

Employment within the Group

FTEs	1st half of 2016	1st half of 2015	Change	
			FTEs	**%**
Average no. of jobs in the period	3,870	4,193	(323)	(7.7%)
No. of jobs at the end of the period	3,775	4,186	(411)	(9.8%)

2.2 Consolidated statement of financial position

As of June 30, 2016, total assets of the Group stood at PLN 44.2 billion, down by 10.8% compared to the end of 2015.

Consolidated statement of financial position

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
ASSETS				
Cash and balances with the Central Bank	823,965	2,170,237	(1,346,272)	(62.0%)
Amounts due from banks	773,686	757,103	16,583	2.2%
Financial assets held-for-trading	2,289,130	6,987,284	(4,698,154)	(67.2%)
Hedging derivatives	-	1,795	(1,795)	(100.0%)
Debt securities available-for-sale	19,754,061	18,351,259	1,402,802	7.6%
Equity investments valued at equity method	10,499	7,768	2,731	35.2%
Equity investments available-for-sale	21,482	67,744	(46,262)	(68.3%)
Amounts due from customers	17,866,828	18,975,471	(1,108,643)	(5.8%)
Tangible fixed assets	343,791	354,080	(10,289)	(2.9%)
Intangible assets	1,366,681	1,371,879	(5,198)	(0.4%)
Current income tax receivables	20,634	20,673	(39)	(0.2%)
Deferred tax asset	166,085	161,586	4,499	2.8%
Other assets	744,527	277,985	466,542	167.8%
Non-current assets held-for-sale	1,928	1,928	-	-
Total assets	**44,183,297**	**49,506,792**	**(5,323,495)**	**(10.8%)**
LIABILITIES				
Amounts due to banks	2,350,657	6,963,561	(4,612,904)	(66.2%)
Financial liabilities held-for-trading	1,618,492	3,247,523	(1,629,031)	(50.2%)
Hedging derivatives	97,405	112,383	(14,978)	(13.3%)
Amounts due to customers	31,501,308	31,586,303	(84,995)	(0.3%)
Provisions	11,981	23,494	(11,513)	(49.0%)
Other liabilities	2,044,724	722,872	1,321,852	182.9%
Total liabilities	**37,624,567**	**42,656,136**	**(5,031,569)**	**(11.8%)**
EQUITY				
Ordinary shares	522,638	522,638	-	-
Share premium	3,003,082	3,001,525	1,557	0.1%
Revaluation reserve	(171,058)	(163,613)	(7,445)	4.6%
Other reserves	2,884,770	2,869,509	15,261	0.5%
Retained earnings	319,298	620,597	(301,299)	(48.5%)
Total equity	**6,558,730**	**6,850,656**	**(291,926)**	**(4.3%)**
Liabilities and equity	**44,183,297**	**49,506,792**	**(5,323,495)**	**(10.8%)**

2.2.1 Assets

Gross amounts due from customers

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Non-banking financial institutions	690,983	2,050,985	(1,360,002)	(66.3%)
Non-financial companies	11,128,484	11,005,152	123,332	1.1%
Individuals	6,579,354	6,436,445	142,909	2.2%
Public sector entities	58,303	68,291	(9,988)	(14.6%)
Non-commercial institutions	14	4	10	250.0%
Total gross receivables from clients	**18,457,138**	**19,560,877**	**(1,103,739)**	**(5.6%)**

In the first half of 2016 gross receivables due from customers decreased by PLN 1.1 billion (or 5.6%) compared to the end of 2015 and amounted to PLN 18.5 billion, due to the reduction of receivables related to reverse repo transactions from the financial sector customers (PLN -1.4 billion). On the other hand, there was an increase in lending for the non-financial sector customers (PLN + 0.3 billion, i.e. 1.5%). Amounts due from non-financial entities increased both on the institutional customers side (increase in the portfolio of amounts due from non-financial companies by PLN 0.1 billion, or 1.1%; mainly from commercial banking and corporate banking customers) and the Consumer banking side (PLN (+ 0.1 billion, or 2.2%; due to unsecured lending growth).

Customer net receivables

PLN '000	As of		Change	
	30.06.2016	31.12.2015	PLN '000	%
Receivables from financial sector entities	**673,718**	**2,033,715**	**(1,359,997)**	**(66.9%)**
Receivables from non-financial sector entities, including:	**17,193,110**	**16,941,756**	**251,354**	**1.5%**
Institutional customers*	10,910,916	10,769,227	141,689	1.3%
Individual customers, including:	6,282,194	6,172,529	109,665	1.8%
Unsecured receivables	4,983,742	4,872,448	111,294	2.3%
Mortgage loans	1,298,452	1,300,081	(1,629)	(0.1%)
Total net customer receivables	**17,866,828**	**18,975,471**	**(1,108,643)**	**(5.8%)**

**Institutional clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*

Debt securities portfolio

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Treasury bonds, including:	20,156,458	21,121,892	(965,434)	(4.6%)
Bonds hedged in the fair value hedge accounting	5,052,801	4,657,996	394,805	8.5%
Bonds issued by banks	171,081	1,888,873	(1,717,792)	(90.9%)
Bonds issued by financial institutions	90,257	33,054	57,203	173.1%
Debt securities, total	**20,417,796**	**23,043,819**	**(2,626,023)**	**(11.4%)**

The debt securities portfolio decreased in the first half of 2016 by PLN 2.6 billion (or 11.4%) compared to the end of 2015, primarily as a result of the decreased position in bank bonds mainly as available-for-sale and decreased position in Treasury bonds classified as held-for-trading.

2.2.2 Liabilities

Liabilities towards customers

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Deposits from financial sector entities	**4,568,184**	**3,381,132**	**1,187,052**	**35.1%**
Deposits of non-financial sector entities, including:	**26,836,159**	**27,894,409**	**(1,058,250)**	**(3.8%)**
non-financial companies	15,061,898	15,967,016	(905,118)	(5.7%)
non-commercial institutions	792,493	460,371	332,122	72.1%
individual customers	9,468,134	8,742,032	726,102	8.3%
public sector units	1,513,634	2,724,990	(1,211,356)	(44.5%)
Other liabilities	**96,965**	**310,762**	**(213,797)**	**(68.8%)**
Liabilities towards customers, total	**31,501,308**	**31,586,303**	**(84,995)**	**(0.3%)**
Deposits of financial and non-financial sector entities, including:				
in PLN	23,584,500	24,589,942	(1,005,442)	(4.1%)
in foreign currency	7,819,843	6,685,599	1,134,244	17.0%
Deposits from financial and non-financial sector entities, total	**31,404,343**	**31,275,541**	**128,802**	**0.4%**

The liabilities towards customers remained stable as a result of a simultaneous increase in deposits of financial sector customers and a decrease in deposits of non-financial sector customers. The decrease was seasonal in nature mainly as a result of lower current account balances of budgetary units compared to the high base as of the end of 2015. At the same time, for another quarter in a row, individual customers' deposits increased by PLN 0.7 billion or 8.3% versus the end of 2015, mainly in the current accounts segment.

2.2.3 Source and use of funds

PLN'000	30 Jun 2016	31 Dec 2015
Source of funds		
Banks	2,350,657	6,963,561
Customers	31,501,308	31,586,303

PLN'000	30 Jun 2016	31 Dec 2015
Own funds including net income	6,558,730	6,850,656
Other	3,772,602	4,106,272
Total source of funds	**44,183,297**	**49,506,792**
Use of funds		
Amounts due from banks	773,686	757,103
Amounts due from customers	17,866,828	18,975,471
Securities, shares and other financial assets	22,075,172	25,414,055
Other	3,467,611	4,360,163
Total use of funds	**44,183,297**	**49,506,792**

2.3 Equity and total capital adequacy ratio

As compared to the end of 2015 the value of equity/own funds (excluding the financial result) of the Group as of the end of the first half of 2016 increased slightly by PLN 8.1 million (or 0.1%).

Equity*

	As of		Change	
PLN'000	30 Jun 2016	31 Dec 2015	PLN'000	%
Ordinary shares	522,638	522,638	-	-
Share premium	3,003,082	3,001,525	1,557	0.1%
Reserve capital	2,360,025	2,349,602	10,423	0.4%
Revaluation reserve	(171,058)	(163,613)	(7,445)	4.6%
General risk reserve	529,000	521,000	8,000	1.5%
Other equity	(11,306)	(6,915)	(4,391)	63.5%
Total equity	**6,232,381**	**6,224,237**	**8,144**	**0.1%**

** Equity net of net profit.*

The equity level is fully sufficient to ensure the financial security of the company and the security of funds deposited in the Bank as well as it fully supports growth opportunities of the Group.

The following table presents financial data for the calculation of the CAR based on the consolidated financial statements of the Group.

Total capital adequacy ratio*

	PLN'000	30 Jun 2016	31 Dec 2015
I	**Tier I capital**	**4,826,041**	**4,781,008**
II	**Total capital requirements, including:**	**2,269,959**	**2,238,956**
	credit risk capital requirements	1,703,720	1,685,320
	counterparty risk capital requirements	77,057	78,682
	credit valuation capital requirements	52,777	34,059
	excess concentration and large exposures risks capital requirements	12,274	16,418
	total market risk capital requirements	117,410	86,544
	operational risk capital requirements	306,721	337,933
	Tier I capital ratio	**17.0%**	**17.1%**

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

As of June 30, 2016 the total capital adequacy ratio of the Group was 17.0%, down by 0.1 pp compared to the end of 2015. This was due to more stringent capital requirements for credit risk, credit valuation and risk position adjustments, lower capital requirement for operational risk and increased own funds.

Bank, in accordance with the decision of the Polish Financial Supervision Authority, is a party to the administrative procedure, conducted by KNF, regarding the identification of the Bank as an other systematically important institution, and the imposition on the Bank (on a consolidated basis and individual basis) of a requirement to hold an other systematically important institution capital buffer, pursuant to Art. 38 of the Act on the macro-prudential supervision of financial system and crisis management in the financial sector.

2.4 Earnings forecast for 2016

The Bank as the parent entity did not publish earnings forecast for 2016.

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

1. Lending and other risk exposures

1.1 Lending

The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry in which the customer operates. Besides, each borrower is followed up on an ongoing basis so that any symptoms of deteriorating creditworthiness may be detected early and subsequent corrective actions implemented. In the first half of 2016, the Group continued the optimization of the lending process and the adjustment of the loans offered to the actual needs of customers and the current situation in the market. The portfolio of individual customers' debts is managed by means of risk management models that take into account risk and profitability of the individual loan groups within the portfolio. Information from the Credit Information Bureau (BIK) is used in the credit risk assessment of Consumer Banking customers, and in particular during scorecard analysis.

Gross receivables to customers

PLN'000	As at		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Receivables in PLN	15,617,654	16,492,240	(874,586)	(5.3%)
Receivables in foreign currency	2,839,484	3,068,637	(229,153)	(7.5%)
Total	**18,457,138**	**19,560,877**	**(1,103,739)**	**(5.6%)**
Receivables from non-financial sector entities	17,766,155	17,509,892	256,263	1.5%
Receivables from financial sector entities	690,983	2,050,985	(1,360,002)	(66.3%)
Total	**18,457,138**	**19,560,877**	**(1,103,739)**	**(5.6%)**
Non-banking financial institutions	690,983	2,050,985	(1,360,002)	(66.3%)
Non-financial sector entities	11,128,484	11,005,152	123,332	1.1%
Individuals	6,579,354	6,436,445	142,909	2.2%
Public sector entities	58,303	68,291	(9,988)	(14.6%)
Non-commercial institutions	14	4	10	250.0%
Total	**18,457,138**	**19,560,877**	**(1,103,739)**	**(5.6%)**

As at 30 June 2016, gross credit exposure to customers was PLN 18.5 billion, decreasing by 5.6% in comparison to 31 December 2015. The decline was due to a decrease in receivables from the financial sector by PLN 1.4 billion in the first half of 2016. The largest part of the non-banking loan portfolio are loans to non-financial businesses, which increased by 1.1% to PLN 11.1 billion in the first half of 2016. Amounts due from private individuals increased by 2.2% in comparison to the end of 2015 and stood at PLN 6.6 billion.

The currency structure of loans as at the end of June 2016 did not change as compared to the end of 2015. The share of foreign currency loans in the portfolio as at 30 June 2016 was 15%. It must be noted that the Group extends loans mainly in PLN, while FX loans are granted to institutional clients, who are able – in the opinion of the Group – to bear the foreign exchange risk without significantly affecting their financial condition.

The Group monitors the concentration of its exposures on a regular basis, seeking to avoid a situation where the portfolio would be exposed to a limited group of clients. As at the end of June 2016, the Group's credit exposure to the non-banking sector was within the legal concentration limit.

Concentration of exposures – non-bank clients

PLN'000	30 Jun 2016			31 Dec 2015		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	542,010	504,228	1,046,238	360,285	700,722	1,061,007
GROUP 2	4,643	953,373	958,016	125,146	502,862	628,008
GROUP 3	132,638	811,168	943,806	120,987	791,637	912,624
CLIENT 4	317,000	433,000	750,000	500,000	250,000	750,000
GROUP 5	388,382	217,503	605,885	447,882	84,545	532,427
GROUP 6	3	601,442	601,445	3	601,358	601,361
CLIENT 7	600,000	-	600,000	700,000	-	700,000
GROUP 8	215,612	321,207	536,819	127,171	250,508	377,679
CLIENT 9	2	510,146	510,148	-	500,078	500,078

PLN'000	30 Jun 2016			31 Dec 2015		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 10	450,000	-	450,000	450,000	-	450,000
GROUP 11	-	-	-	419,442	94,426	513,868
Total	**2,650,290**	**4,352,067**	**7,002,357**	**3,250,916**	**3,776,136**	**7,027,052**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries *

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	30 Jun 2016		31 Dec 2015	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,356,239	17.5%	4,416,137	17.8%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,582,162	10.4%	2,661,946	10.7%
Financial services, excluding insurance and pension funds	1,823,697	7.3%	1,842,100	7.4%
Retail trade, excluding retail trade in vehicles	1,679,401	6.7%	1,413,278	5.7%
Production of food and beverages	1,415,841	5.7%	1,290,045	5.2%
Production and processing of coke and petroleum products	1,247,191	5.0%	848,866	3.4%
Mining of metal ores	1,046,238	4.2%	1,061,007	4.3%
Production of metal goods, excluding machines and equipment	674,868	2.7%	689,814	2.8%
Public administration and national defence; compulsory social security	661,690	2.7%	640,294	2.6%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	655,484	2.6%	595,058	2.4%
10 business sectors	**16,142,811**	**64.8%**	**15,458,545**	**62.4%**
Other sectors	**8,750,970**	**35.2%**	**9,332,262**	**37.6%**
Total	**24,893,781**	**100.0%**	**24,790,807**	**100.0%**

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

1.2 Loan portfolio quality

All of the Group's receivables are allocated to two portfolios depending on the existing risk of their impairment: the portfolio of receivables without recognized impairment and the portfolio of receivables with recognized impairment. Depending on the materiality of the receivables and their risk management method, the portfolio with recognized impairment is then classified into assets assessed individually or collectively.

Loans to customers by portfolio with/without recognized impairment

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Loans without recognized impairment, including:	17,770,078	18,861,253	(1,091,175)	(5.8%)
non-financial sector entities	17,096,228	16,827,402	268,826	1.6%
institutional clients*	10,871,593	10,729,522	142,071	1.3%
individual customers	6,224,635	6,097,880	126,755	2.1%
Loans with recognized impairment, including:	613,711	625,591	(11,880)	(1.9%)
non-financial sector entities	596,578	608,457	(11,879)	(2.0%)
institutional clients*	241,859	269,892	(28,033)	(10.4%)
individual customers	354,719	338,565	16,154	4.8%
Amounts due from matured transactions in derivative instruments	73,349	74,033	(684)	(0.9%)
Total gross loans to customers, including:	**18,457,138**	**19,560,877**	**(1,103,739)**	**(5.6%)**
non-financial sector entities	17,692,806	17,435,859	256,947	1.5%
institutional clients*	11,113,452	10,999,414	114,038	1.0%
individual customers	6,579,354	6,436,445	142,909	2.2%
Impairment, including:	**(590,310)**	**(585,406)**	**(4,904)**	**0.8%**
Amounts due from matured transactions in derivative instruments	(66,902)	(67,678)	776	(1.1%)
Total net amounts due from customers	**17,866,828**	**18,975,471**	**(1,108,643)**	**(5.8%)**
Impairment provisions coverage ratio**	**85.3%**	**82.8%**		
institutional clients*	86.4%	87.6%		
individual customers	83.8%	78.0%		
Non-performing loans ratio (NPL)	**3.3%**	**3.2%**		

* 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 the first half of 2016, the coverage ratio (impairment losses to receivables with recognized impairment) increased by 2.5 p.p. compared to the end of 2015 and stood at 85.3%.

The share of non-performing loans remained unchanged compared to the end of 2015 and represented 3.3% of the gross amounts due from customers at the end of June 2016.

As at 30 June 2016, portfolio impairment losses stood at PLN 590 million, which represented a modest increase by PLN 4.9 million (i.e. 0.8%) compared to the end of December 2015. Impairment losses on receivables assessed collectively increased by PLN 23.4 million, i.e. 10.4% compared to the end of 2015. As at 30 June 2016, impairment losses on the portfolio assessed individually decreased by PLN 27.1 million (i.e. 9.1%) compared to 31 December 2015.

Impairment of the customer loan portfolio

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Impairment due to incurred but not reported (IBNR) losses	73,596	64,968	8,628	13.3%
Impairment of receivables	516,714	520,438	(3,724)	(0.7%)
classifiable (individual assessment)	269,226	296,332	(27,106)	(9.1%)
delinquency managed (portfolio assessment)	247,488	224,106	23,382	10.4%
Total impairment	**590,310**	**585,406**	**4,904**	**0.8%**
Impairment provision coverage ratio (on total receivables)	3.2%	3.0%		

The Management Board believes that the existing impairment losses properly represent the best estimate of the actual impairment of the portfolio, taking into account the discounted forecast of future cash flows associated with the repayment of receivables.

1.3 Contingent liabilities

As at 30 June 2016, the Group's off-balance sheet exposure amounted to PLN 18.5 billion, increasing by PLN 0.5 billion (i.e. 2.5%) from the figure reported at the end of 2015.

Contingent off-balance sheet liabilities granted

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Guarantees	2,191,485	2,101,477	90,008	4.3%
Import letters of credit issued	219,504	160,065	59,439	37.1%
Export letters of credit confirmed	-	335	(335)	100.0%
Credit commitments	14,462,756	14,618,126	(155,370)	(1.1%)
Securities issuance guarantees granted to other issuers	1,291,000	1,138,000	153,000	13.4%
Deposits to issue	300,000	-	300,000	-
Other	33,464	29,531	3,933	13.3%
Total	**18,498,209**	**18,047,534**	**450,675**	**2.5%**
Provisions for contingent liabilities granted	7,523	10,451	(2,928)	(28.0%)
Provisions coverage ratio	0.04%	0.06%		

The total value of collateral securing the Bank's borrowers' accounts or assets was PLN 3,722 million as at 30 June 2015 and PLN 3,430 million as at 31 December 2015.

In the first half 2016, the Group issued 1,997 enforcement titles for a total amount of PLN 41.2 million, while in the first half 2015 it issued 2,788 enforcement titles for a total amount of PLN 64.5 million.

As at the end of the first half 2016, the total value of guarantees or sureties issued by the Bank or its subsidiary to a single entity or its subsidiary was not higher than 10% of the Group's equity.

2. External funding

As at the end of June 2016, the Group's external funding from banks totaled PLN 2.4 billion and was lower by PLN 4.6 billion (i.e. 66.2%) than the figure reported at the end of December 2015. The decrease was mainly reported in time deposits.

Total amounts due to customers stood at PLN 31.4 billion as at the end of the first half of 2016, which represented a slight increase compared to the deposit base at the end of 2015, primarily as a result of an increase in the balance of deposits from financial sector undertakings (PLN +1.2 billion, i.e. 35.1%). Additionally, the uptrend in the individual customer deposit portfolio continued (an increase of PLN 0.7 billion, i.e. 8.3% compared to the end of 2015). On the other hand, a decrease was recorded in the balance of institutional client and government unit deposits (in total by PLN -1.8 billion, i.e. 9.3%) owing to the seasonally high deposit base for these clients at the end of the year.

Funding from banks

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Current accounts	1,710,452	681,202	1,029,250	151.1%
Term deposits	492,844	4,460,693	(3,967,849)	(89.0%)
Loans and advances received	147,358	198,203	(50,845)	(25.7%)
Liabilities due to sold securities under repurchase agreements	-	1,623,456	(1,623,456)	(100.0%)
Other liabilities	3	7	(4)	(57.1%)
Total funding from banks	**2,350,657**	**6,963,561**	**(4,612,904)**	**(66.2%)**

Funding from customers

PLN'000	As of		Change	
	30 Jun 2016	31 Dec 2015	PLN'000	%
Deposits from financial sector entities				
Current accounts	404,670	226,438	178,232	78.7%
Term deposits	4,163,514	3,154,694	1,008,820	32.0%
	4,568,184	**3,381,132**	**1,187,052**	**35.1%**
Deposits from non-financial sector entities				
Current accounts, including:	18,479,991	20,194,711	(1,714,720)	(8.5%)
corporate customers	9,731,220	10,454,683	(723,463)	(6.9%)
individual customers	7,852,497	7,074,422	778,075	11.0%
public sector units	896,274	2,665,606	(1,769,332)	(66.4%)
Term deposits, including:	8,356,168	7,699,698	656,470	8.5%
corporate customers	6,123,171	5,972,704	150,467	2.5%
individual customers	1,615,637	1,667,610	(51,973)	(3.1%)
public sector units	617,360	59,384	557,976	939.6%
	26,836,159	**27,894,409**	**(1,058,250)**	**(3.8%)**
Total deposits	**31,404,343**	**31,275,541**	**128,802**	**0.4%**
Other liabilities				
Liabilities due to securities sold under repurchase agreements	-	188,505	(188,505)	(100.0%)
Other liabilities, including:	96,965	122,257	(25,292)	(20.7%)
Cash collateral	80,611	99,207	(18,596)	(18.7%)
Other liabilities, total	**96,965**	**310,762**	**(213,797)**	**(68.8%)**
Total amounts due to customers	**31,501,308**	**31,586,303**	**(84,995)**	**(0.3%)**

3. Institutional Bank

3.1 Segment results summary

PLN'000	1st half of 2016	1st half of 2015	Change	
			PLN'000	%
Net interest income	220,919	216,478	4,441	2.1%
Net fee and commission income	133,022	137,556	(4,534)	(3.3%)
Dividend income	844	1,462	(618)	(42.3%)
Net income on trading financial instruments and revaluation	128,705	142,329	(13,624)	(9.6%)
Net gain on investment debt securities available-for-sale	20,925	118,800	(97,875)	(82.4%)
Net gain on investment equity instruments available-for-sale	27,430	-	27,430	-
Net loss on hedge accounting	7,561	910	6,651	730.9%
Net other operating income	14,180	6,821	7,359	107.9%
Total income	**553,586**	**624,356**	**(70,770)**	**(11.3%)**
General administrative expenses and depreciation	(262,202)	(270,486)	8,284	(3.1%)
Profit on sale of other assets	87	7	80	-
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	17,135	(1,026)	18,161	-

PLN'000	1st half of 2016	1st half of 2015	Change	
			PLN'000	%
Share in net profits/(losses) of entities valued at equity method	78	48	30	62.5%
Tax on some financial institutions	(22,778)	-	(22,778)	-
Profit before tax	**285,906**	**352,899**	**(66,993)**	**(19.0%)**
Cost/Income	**47%**	**43%**		

The key highlights that impacted the gross profit of the Institutional Banking Segment in the first half of 2016 when compared to the corresponding period of 2015 were as follows:

- increase in net interest income as a result of the increased interest income from debt securities available-for-sale (PLN +35.7 million), partially offset by lower interest income from debt securities held-for-trading (PLN -16.7 million). In the consumer business, interest income from the non-financial sector increased YoY, but the interest income from the financial sector declined;
- decline in net fee and commission income, mainly in the area of implementation of payment orders;
- decline in net income from trade financial instruments and revaluation due to adverse changes in the market environment in the interbank market activity
- net income on debt investment securities, which in the first half of 2016 amounted to PLN 20.9 million, dropped by 97,9 million (or 82.4%);
- increase in the result on other operating income and expenses due to one-off events, i.e. reimbursement of VAT;
- decrease in operating costs due to, inter alia, lower staff expenses as a result of reduced headcount;
- decrease in net impairment losses (reversal of net impairment losses of PLN 17.7 million in the first half of 2016 compared to the net impairment losses of PLN 1.0 million in the corresponding period of the previous year) was mainly due to higher reversal levels for individually assessed impaired loans.

3.2 Institutional Bank and the Capital Markets

3.2.1 Institutional Bank

As regards institutional banking, the Bank 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 the first half of 2016, the number of institutional clients (including strategic, global and commercial banking clients) amounted to 6,600, a decline of 4% compared to the end of the first half of 2015 when the number of clients reached 6,900. Within the framework of commercial banking (small and medium-sized enterprises, large companies and the public sector), the Bank served 4,200 clients at the end of the first half of 2016, a decrease of 9% compared to 4,600 clients served at the end of the first half of 2015. The main reason for the decline were terminations of unused relationships with the Bank by clients.

What institutional banking clients have in common is their demand for advanced financial products and advisory related to financial services. In that area, the Bank 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 modern financing structures on offer rely on a combination of the Bank's expertise and experience and its cooperation within the global Citigroup structure.

The following table presents the volumes of assets and liabilities split by segments in management reporting format.

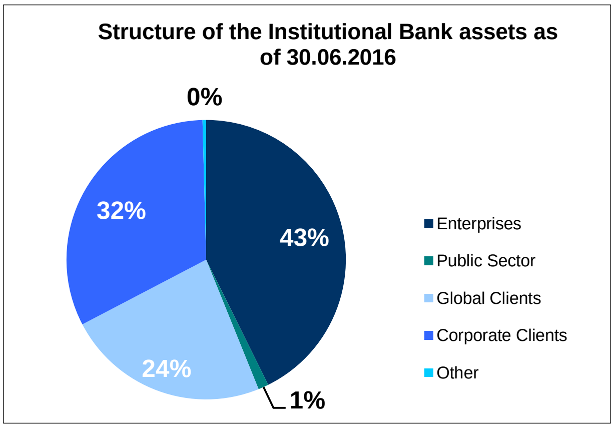
Assets*

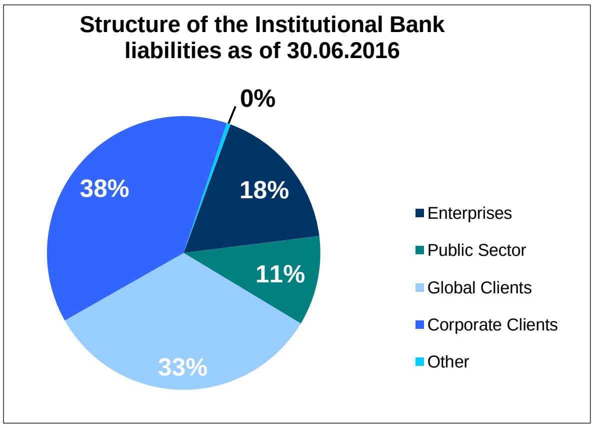
PLN million	30 Jun 2016	31 Dec 2015	30 Jun 2015	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises**, including:	4,881	4,433	4,672	448	10%	209	4%
SMEs	1,851	1,797	1,906	54	3%	(55)	(3%)
MMEs	3,030	2,636	2,767	394	15%	263	10%
Public Sector	138	95	167	43	45%	(29)	(17%)
Global Clients	2,684	3,370	3,565	(686)	(20%)	(881)	(25%)
Corporate Clients	3,689	3,379	2,361	310	9%	1,328	56%
Other***	48	12	50	36	300%	(2)	(4%)
Total Corporate and Commercial Bank	**11,440**	**11,289**	**10,815**	**151**	**1%**	**625**	**6%**

Liabilities

PLN million	30 Jun 2016	31 Dec 2015	30 Jun 2015	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises**, including:	3,708	3,702	3,383	6	0%	325	10%
SMEs	2,329	2,605	2,320	(276)	(11%)	9	0%
MMEs	1,379	1,097	1,063	282	26%	316	30%
Public Sector	2,249	3,181	1,940	(932)	(29%)	309	16%
Global Clients	7,036	9,442	6,105	(2,406)	(25%)	931	15%
Corporate Clients	8,134	5,368	5,535	2,766	52%	2,599	47%
Other***	96	197	389	(101)	(51%)	(293)	(75%)
Total Corporate and Commercial Bank	**21,223**	**21,890**	**17,351**	**(667)**	**(3%)**	**3,871**	**22%**

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





<u>Key transactions and successes of the Corporate and Commercial Bank in the first half of 2016:</u>

- In the Corporate and the Global Clients segment:
  - Signing an agreement with a leading radio-fusion and radio communication producer in Poland, together with a consortium of other banks, amounting to PLN 1,734 B; Bank's share in financing is PLN 190 million;
  - In cooperation with other banks, signing a revolving loan agreement with one of the largest manufacturers of chemical raw materials in Poland, amounting to EUR 220 million; Bank's share in financing is EUR 30 million;
  - Carrying out four transactions to hedge long-term bonds for a Public Sector client;
  - The issuance of 500 business cards to one of the leading clients from the insurance industry;
  - Successful tendering for the issuance of 400 business cards to a client from the automotive industry and initiating cooperation in the FX area;
  - Successful tendering for opening 120 escrow accounts within the framework of providing services related to investment projects to one of the leaders in the construction industry;
  - Adding and executing 230,000 direct debit transactions;
  - Establishing a new relationship and commencing cooperation with respect to handling bank accounts and executing FX transactions with a company from the chemical industry, which plans to invest up to EUR 100 million in the Wrocław special economic zone;
  - Establishing a new relationship and commencing cooperation with respect to handling bank accounts and executing FX transactions with a company from the chemical industry – one of the largest producers of phosphate fertilizers worldwide;
  - Establishing a new relationship with a customer from the investment fund industry; Bank acts as a depositary;
  - Establishing a new relationship with a company from the real estate industry;
  - Signing an agreement concerning a supplier finance program with one of fast moving consumer goods market leaders (FMCG);

- Providing banking services to an Emerging Market Champion from the automotive industry that used to be provided by other banks;
- Successful tendering for the provision of comprehensive banking services to a major player in the tobacco market;
- Successful tendering for the provision of services to one of the leaders from the alcoholic beverages industry;
- Successful tendering for the provision of services to an Emerging Market Champion;
- Successful tendering for the provision of services to a customer from the transport industry.

- In the first half 2016, the Bank executed, inter alia, the following transactions with customers from the Commercial Bank segment: granted a long-term authorized overdraft amounting to PLN 120 million to a leading manufacturer of ceramic tiles; a long-term loan amounting to PLN 95 million to a producer of coke, coal derivatives and coal gas; an operating loan amounting to PLN 90 million to a producer of cold-rolled flat steel products; an authorized overdraft amounting to PLN 45 million for the production of meat products, including poultry meat products; an authorized overdraft amounting to PLN 30 million for the production of ceramic tiles; an operating loan amounting to PLN 28 million and a PS line amounting to PLN 4 million for a stationery manufacturer; an authorized overdraft amounting to PLN 20 million and a long-term loan amounting to PLN 9 million for meat processing and preserving; an operating loan amounting to PLN 20 million to a wholesaler of fuels and derivative products.

In the Commercial Bank segment, 185 new clients were acquired in the first half 2016, including 19 Large Enterprises, 129 Small and Medium-sized Enterprises, and 37 Public Sector entities. The Bank acquired 25 client relations in the Strategic Clients and Global Clients segment.

3.2.2 Achievements of the Sub-Sector Financial Markets

- In January 2016, the Bank once again won the competition for Treasury Securities Dealers held by the Ministry of Finance. The Bank has been consistently involved in the promotion of the Polish market and has actively contributed to the development of the domestic debt issuance policy for several years. This role has been entrusted to the Bank for the fourth time in a row, which confirms our leadership in this market segment;
- In May 2016, the Bank received two awards from BondSpot S.A. For another year in a row, the Bank was honored for the highest turnover on the Treasury BondSpot Poland spot market and for achieving the position of a Treasury BondSpot Poland market making leader in 2015;
- According to the “Rating&Market” report by Fitch Ratings, as at the end of the first half of 2016 the Bank held a 15% market share as an arranger of issues of bonds and certificates of deposit for banks and was ranked second among other market participants;
- The CitiFX Pulse online platform remains very popular among clients. Nearly 80% of all foreign exchange transactions are executed using this channel. The tool is being constantly developed and expanded to include new functionalities. In 2016, the Bank integrated the SEPA Direct Debit service with the CitiFX Pulse currency platform, giving clients even more control over payments and the related currency exchange process;
- In the first half of 2016, the Bank was also active in the market of debt securities by participating in the following transactions:
  - The conclusion of a new bond issuance program for a company owned by the Treasury, amounting to up to PLN 700 million;
  - Joining an existing bond issuance program by a leasing company from the Issuer’s group, amounting up to PLN 500 million;
  - Conducting a syndicated issue of 5-year bonds amounting to PLN 1.75 billion for the European Investment Bank.

3.2.3 Transaction services

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

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

A strategic direction of development for the Bank is to establish closer relations with Poland’s biggest companies and industry leaders in order for Citi Handlowy to become their bank of choice. The extensive offer of transactional services provides the Bank's key clients with comprehensive service: from liquidity management in groups of companies, through payment and receivable processing, to Supplier Finance and Channel Finance.

Deposits and current accounts

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

In the first half of 2016, a significant rise in balances in institutional client accounts was observed as a result of the activation of both existing and new clients in Q4 2015. In the first half of 2016, average monthly balances maintained in current accounts with the Bank grew by 33% in relation to the corresponding period of 2015; growth in the balances maintained in PLN accounts reached 34%, and in USD accounts – 20% compared to the corresponding period of 2015.

Excess funds accumulated by a client in a current account, i.e. funds that are not required to finance day-to-day operations, may be invested in time deposits. In addition to time deposits, the Bank sells negotiated deposits, automatic deposits and blocked deposits.

Liquidity management products

Liquidity management structures are advanced instruments that optimize cash flows within a group of companies. The liquidity management products offered by the Bank make it possible to ensure optimized management of excess cash generated by overly liquid firms and companies. The Bank's liquidity management products include:

- real cash pooling;
- virtual consolidation;
- net balance.

These liquidity management structures can reduce the overall debt and its servicing costs at no liquidity risk.

Electronic banking

Key information about electronic banking in the first half of 2016:

- The number of transactions processed electronically through the CitiDirect and CitiDirect EB ("Evolving Banking") systems totaled 12.5 million in the first half of 2016;
- The number of institutional clients who are active users of both systems remained at approximately 4,500;
- The number of institutional clients activated in the online banking system was 3,300 for CitiDirect and 3,200 for CitiDirect EB at the end of the first half of 2016;
- The number of clients with mobile access to both electronic banking systems was 3,200 at the end of the first half 2016. Clients processed more than 136,000 transactions using mobile access channels in January–June 2016;
- More than 6,700 transactions were executed using the dedicated application for tablets in the first half of 2016.

In the first half of 2016, new changes and improvements were made to the e-banking offering for the Bank's institutional clients:

- The functionality of the CitiDirect EB portal was enhanced by making available an improved file handling module, which enables more efficient access to file import and export functions.
- The Bank consistently implemented the plan for the further commercialization of mobile solutions offered to institutional clients, which was reflected in the increase of the number of transactions executed using this channel.
- In order to make users of the CitiDirect and CitiDirect EB systems aware of online security issues, a new, expanded cybersecurity site was made available.

Additionally, the Bank continued the development of the Citi Trade Portal trade finance and services platform, in which a number of improvements were made, of which the most important one was the introduction of new Trade Credit functionality both for Sellers and for Buyers.

Business cards

As regards Charge and Guaranteed Business Cards, the Bank recorded an increase in the number and value of transactions executed compared to the second half of 2015 – for non-cash transactions by 2% and 4% respectively, and for cash transactions by 6% and 5% respectively. That was attributable to the consistent policy of attracting high transaction volumes and activation of the portfolio of the existing clients.

Prepaid cards

In the first half of 2016, the Bank reported a significant increase in the value of non-cash transactions executed with Prepaid Cards compared to the same period of 2015. The number of non-cash transactions increased by 10% while the value of transactions with Prepaid Cards increased by 4% YoY. The Bank also increased the number of cards issued by 8% compared to the first half of 2015.

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

Direct Debit

The Bank provides its customers with comprehensive receivables processing. The direct debit market is a segment where services of this type are provided. In the first half of 2016, the Bank strengthened its position as a market leader and processed the biggest number of direct debits as the creditor's bank another year in a row, increasing its market share to almost 50%.

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

Speed Collect

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

Foreign bank transfers

The Bank boasts a comprehensive and very extensive settlement offering in over 130 currencies throughout the world. Integrated settlement services include a compilation of remote access channels and product offerings in the area of international settlements. In response to the clients' needs, the Bank introduced a multi-currency account which enables clients to execute fund transfers in exotic currencies in a simple, convenient and effective manner with no need for opening foreign currency accounts and maintaining local accounts abroad. The Bank's offering provides a unique approach in the Polish market given the range of available currencies. In the first half of 2016, the Bank introduced a new currency – the Kazakhstani tenge (KZT) – into its range of settlement services offered. The currency was previously only available for outgoing transfers within the framework of the Multicurrency Account. Currently, a client who opens a nostro account with JSC Citibank Kazakhstan will be able to both send and receive transfers in the Kazakhstani tenge.

EU-oriented advisory services

In the first half of 2016, the Bank was building a portfolio of projects to be implemented by its clients using the financial resources granted under the EU Financial Perspective 2014–2020. The focus was both on projects that could be funded from domestic operational programs (e.g. Smart Growth Operational Program) and on those funded under Regional Operational Programs.

In connection with the new approach by the European Commission and National Managing Authorities, under which banks are important partners in the distribution of European funds and in financing of the investments co-financed with subsidies and repayable instruments, the Bank sought opportunities in this area as well. In connection with the above, it signed a cooperation agreement with Bank Gospodarstwa Krajowego related to the handling of Measure 3.2.2 of Smart Growth Operational Program – Loans for technological innovations.

Trade finance products

In the first half of 2016, the Trade Finance Department consistently developed cooperation with the Bank's clients, mainly in the Supplier Finance, Trade Credit and Bank Guarantee areas. Among the key tools used for this purpose that has afforded the Bank a market advantage is a state-of-the-art electronic platform dedicated to all these products. In addition, the Bank's flexible approach to custom solutions and high quality of service throughout the sales process have allowed it to achieve the highest volumes in the area of guarantees and documentary letters of credit for several years.

At the same time, a range of promotion campaigns were pursued for trade finance products both among corporate clients and SMEs.

The key trade finance transactions in the first half of 2016 include:

- Successful tendering for the handling of bank guarantees for new companies for a total limit amount of PLN 125 million;
- Increase of aggregate credit limits under the Supplier Finance Program scheme by PLN 140 million (trade and FMCG);
- Development of financial programs within the Discounting of Receivables scheme for a total amount of PLN 66 million and obtaining a mandate for another significant transaction under the Discounting of Foreign Receivables scheme amounting to PLN 400 million (mining industry).

3.2.4 Custody services

The Bank holds the leading position among depositary banks in Poland. It offers both custody services for foreign institutional investors and depositary services for domestic financial entities, in particular pension funds, investment funds and unit-linked funds.

As part of its statutory activities, carried out under an authorization from the Securities and Exchanges Commission (now the Polish Financial Supervision Authority), the Bank operates securities accounts, collective accounts, clears securities trades, effects dividend and interest payments, performs asset portfolio valuations, provides individual reports, and arranges representation for its clients at general shareholders' meetings of listed companies. The Bank also maintains a register of foreign securities, including intermediary services to clear domestic clients' transactions in foreign markets.

In the reporting period, the Bank maintained its position of market leader in clearing securities transactions executed for the benefit of remote members of the Warsaw Stock Exchange and BondSpot S.A. In addition, the Bank participated in the settlement of transactions closed by institutional clients on the electronic debt securities trading platform Treasury BondSpot Poland organized by BondSpot S.A.

As at 30 June 2016, the Bank maintained over 10,600 securities accounts.

At the same time, the Bank served as depositary for five open-end pension funds (OFE): MetLife OFE, Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE, Nordea OFE, and for four voluntary pension funds: MetLife DFE, Generali DFE, Nationale-Nederlanden DFE, DFE Pekao and the PFE Orange Polska occupational pension fund.

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

3.2.5 Brokerage activities

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

In the first half of 2016, DMBH brokered session transactions representing 10.3% of equity turnover in the secondary market and once again ranked first in the market. The value of session transactions executed via DMBH in the equity market on the Warsaw Stock Exchange (WSE) amounted to PLN 17.5 billion and declined by 22% in relation to the corresponding period of the preceding year while trading on the WSE decreased by 16.4%. The change from the previous six months looks less negative from the DMBH perspective because the value of session transactions executed by the Company decreased by 15% while the decline in turnover on the Warsaw Stock Exchange reached -15.9%.

At the end of the first half of 2016, DMBH was the Market Maker for the shares of 64 companies listed on the Warsaw Stock Exchange (including 20 covered by the WIG20 blue chip index). That represented 13.25% of all shares traded on the WSE main market.

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

DMBH maintained 11,500 investment accounts at the end of the first half of 2016, an increase of 14% compared to the corresponding period of 2015 and of 9.5% compared to the end of the fourth quarter of 2015. The number of accounts increased primarily due to a steady growth in the number of brokerage service agreements for FX and foreign market services performed via the CitiFX Stocks platform.

In the first half of 2016, DMBH closed the following deals on the capital market:

- Stalprodukt S.A. – DMBH acted as an intermediary in the tender offer process related to the share buyback program implemented by Stalprodukt S.A.; the value of the second tranche of the program amounted to PLN 89.6 million (February 2016);
- Stalprodukt S.A. – DMBH acted as an intermediary in the tender offer process related to the share buyback program implemented by Stalprodukt S.A.; the value of the third tranche of the program amounted to PLN 89.6 million (April 2016);
- DTP S.A. – DMBH acted as an intermediary in a tender offer for DTP S.A. announced by PRAGroup Polska sp. z o.o., with transaction value amounting to PLN 174.5 million (the transaction was settled in April 2016);

Summarized financial data as of June 30, 2016

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2016	Total equity 30 Jun 2016	Net financial result for the period of 1 Jan – 30 Jun 2016
		%	PLN'000	PLN'000	PLN'000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	844,836	100,364	3,873

3.2.6 Leasing activities

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

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

On December 2, 2015, the Extraordinary Meeting of Shareholders of Handlowy Leasing Sp. z.o.o. It passed a resolution to reduce the share capital of the Company from the amount of PLN 123,120 thousand to the amount of PLN 16,129 thousand, i.e. the amount of PLN 106,991 thousand. After conducting the procedure notifying the creditors of share capital reduction, on May 16, 2016, the Court Registry has made the registration of the reduced share capital. Changing the value of the share capital was the result of reducing the nominal value of one share of the PLN 20,000 to PLN 2,620 zł, i.e. the amount of PLN 17,380, the total number of shares of the Company has not changed and is 6,156.

Handlowy - Leasing Sp. z o.o. as a result of completed and a legitimate proceedings against the State Treasury to recover the interest on the amount of VAT for the period 12.2006 to 12.2009 accrued to the date of repayment (interest are due to the Company in respect of previously paid, and later received VAT in the process of re-invoicing insurance) on 24 May 2016, HL received a refund of the overpayment with interest in the total amount of PLN 5.9 million.

Summary financial data as of June 30, 2015

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2015	Total equity 30 Jun 2015	Net financial result for the period of 1 Jan – 30 Jun 2015
		%	PLN'000	PLN'000	PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	53,178	35,316	7,108

4. Consumer Bank

4.1 Segment results summary

PLN'000	1st half of 2016	1st half of 2015	Change	
			PLN'000	%
Net interest income	278,802	280,308	(1,506)	(0.5%)
Net fee and commission income	148,731	172,476	(23,745)	(13.8%)
Dividend income	6,490	5,715	775	13.6%
Net income on trading financial instruments and revaluation	16,531	15,297	1,234	8.1%
Net gain on equity investment instruments available-for-sale	66,477	-	66,477	-
Net other operating income	(1,861)	(9,388)	7,527	(80.2%)
Total income	**515,170**	**464,408**	**50,762**	**10.9%**
General administrative expenses and depreciation	(352,086)	(353,889)	1,803	(0.5%)
Profit/loss on sale of non-financial assets	-	65	(65)	(100.0%)
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(31,627)	(4,458)	(27,169)	609.4%
Tax on some financial institutions	(8,734)	-	(8,734)	-
Profit before tax	**122,723**	**106,126**	**16,597**	**15.6%**
Cost/Income	**68%**	**76%**		

The key highlights that impacted the gross profit of the Consumer Bank in the first half of 2016 when compared to the corresponding period of 2015 were as follows:

- decrease in net interest income due to reduced interest rates on asset products (in total by 0.8 pp in the first half, 2016 compared to the first half of 2015) due to the changes in market interest rates, partially offset by a growth in asset products balances (+5% YoY) and a decline in interest expenses achieved despite an increase in the balances of deposits (+19% YoY) as a result of the reduction in interest rates to adjust them to the market interest rates (interest rates were reduced mainly in the area of savings accounts and term deposits) and a favorable change in the composition of the portfolio of deposits (the share of current deposits increased while the share of term deposits decreased);

- decrease in net fee and commission income from investment products (as a consequence of the decline in the market sentiment) partially offset by the introduction of new insurance products, both credit and non-credit insurance policies, as well as the adjustment of the table of fees and commissions to the customer segmentation model in accordance with the Bank's strategy, i.e. preferential conditions exclusively for customers having a deep relationship with the Bank (no fee for account maintenance, preferential FX rates and investment advisory free of charge);

- increase in net gain on capital investment instruments available-for-sale as a result of the settlement of a transaction of acquisition of Visa Europe Limited by Visa Inc.
- decrease in expenses due to reduced headcount, while the saves were largely reinvented in technology and marketing.
- net impairment write-down of PLN -31.6 million, primarily due to diminished expectations of recoveries from the impaired portfolio along with the increase in the average age of this portfolio.

4.2 Selected business data

'000	1st half of 2016	1st half of 2015	Change	
Number of individual customers	679.5	692.8	(13.3)	(1.9%)
Number of current accounts, including:	456.2	468.9	(8.3)	(1.8%)
number of operating accounts	282.0	302.1	(20.1)	(6.7%)
Number of operating accounts acquired in the period	27.1	32.7	(5.6)	(17.1%)
Number of savings accounts	153.0	163.9	(10.9)	(6.7%)
Number of credit cards, including:	698.0	704.7	(6.7)	(1.0%)
co-branded cards	345.2	399.6	(54.4)	(13.6%)
Number of active credit cards	631.8	638.6	(6.8)	(1.1%)
Number of debit cards, including:	252.6	285.7	(33.1)	(11.6%)
PayPass cards	252.6	270.2	(17.6)	(6.5%)

Receivables from individual clients – management view

PLN '000	30.06.2016	31.12.2015	30.06.2015	Change YTD		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	4,983,742	4,872,448	4,702,896	111,294	2.3%	280,846	6.0%
Credit cards	2,239,357	2,173,376	2,084,171	65,981	3.0%	155,186	7.4%
Cash loans	2,686,545	2,635,759	2,558,121	50,786	1.9%	128,424	5.0%
Other unsecured receivables	57,840	63,313	60,604	(5,473)	(8.6%)	(2,764)	(4.6%)
Mortgage loans	1,298,452	1,300,081	1,279,409	(1,629)	(0.1%)	19,043	1.5%
Total net individual clients' receivables	**6,282,194**	**6,172,529**	**5,982,305**	**109,665**	**1.8%**	**299,889**	**5.0%**

4.3 Business highlights

Bank accounts

- **Current accounts**

The number of personal accounts decreased to 456,000 at the end of the first half of 2016 (compared to 469,000 at the end of June 2015), including 269,000 accounts in Polish zlotys and 187,000 in foreign currencies. The total account balance was more than PLN 4,7 billion compared to PLN 3.7 billion at the end of June 2015.

- **Savings accounts**

The number of savings accounts at the end of the first half of 2016 was 153,000. The total balance of funds accumulated in them amounted to PLN 3,0 billion despite the smaller number of accounts (164,000 savings accounts in the corresponding period of the previous year).

- **Change in the offer**

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

The changes introduced are consistent with the Bank's strategy. The new model of fees and commissions encourages clients to tighten their relationship with the Bank so that they satisfy the criteria for Citi Priority or Citigold clients. It should be stressed that no new or higher charges were introduced for customers from the Gold segment.

In April 2016, following a decrease in interest rates on one-month deposits in the Polish interbank market (WIBID 1M), the bonus interest rate on the funds accumulated in the Saver Account in Polish zlotys and the interest rate on the funds accumulated in the SuperSaver Account in Polish zloty were decreased as well.

In the first half of 2016, the Bank encouraged opening new accounts in the Citigold and Citigold Private Client segments by, inter alia, offering promotional interest on time deposits and gift certificates to be redeemed at retail and service outlets and by implementing the Citigold Recommendation program.

Credit cards

At the end of the first half of 2016, there were 698,000 credit cards.

The debt balance on credit cards as at the end of the first half of 2016 amounted to PLN 2,2 billion, i.e. was 4.8% higher than that reported for the same period of the preceding year. As a result, the Bank consolidated its leading position in the credit card market in terms of the value of credit facilities extended in the form of credit cards, holding a market share of 25.3% according to the figures provided at the end of June 2016.

In the first half of 2016, the quantity of credit cards issued was higher by 52% than in the same period of the previous year.

The structure of credit cards sold in the first half of 2016 was dominated by the Citi Simplicity card with a share of 80%. As regards co-branded cards, the highest share among the cards issued was that of the Citibank World Credit Card with a sales share of 12%, followed by the Citibank PremierMiles Credit Card with a share of 4%.

Cash Loan and Cash Loan to Credit Card Account (ALOP)

Cash advances stood at PLN 2.7 billion as at end June 2016, which was an increase of 4% compared to the corresponding period of the previous year. Total sales of cash advances amounted to PLN 818 million in the first half of 2016.

In the first half of 2016, the Bank maintained its cash advance sales model as revised in 2014, focusing on remote sales, e.g. by phone or via the Bank's online platform, and also using simple direct sales processes, including among others at modern Smart branches.

Mortgage products

In the first half of 2016, the Bank continued its strategy based on offering attractively priced mortgage products to Gold and Priority segment clients. The balance of the mortgage loan portfolio as at end of the first half of 2016 did not change compared to the end of 2015 and remained at PLN 1.3 billion.

Investment and insurance products

At the end of the first half of 2016, the total value of investment products (including investment-type insurance products, net of bi-currency investments) purchased by consumers via the Bank was lower by 10% than at the end of the first half of 2015. This decrease concerned mainly open-end investment funds and investment-type insurance products and was caused by the situation on the financial markets. On the other hand, an increase was reported for the assets related to structured bonds as well as the instruments accumulated in the accounts maintained by the Dom Maklerski Banku Handlowego S.A. (DMBH) brokerage house.

Within the scope of cooperation with DMBH, the Bank granted its clients access to 20 issues of investment certificates of closed-end investment funds.

As regards structured products, the Bank completed 46 structured bond subscriptions in the first half of 2016. The securities were denominated in Polish zlotys, U.S. dollars and euro.

The Bank initiated cooperation with the insurance company TUnŻ Warta S.A., and in April 2016, its first product (Platinum Protection Plus term insurance) was introduced into the range.

In the first half of 2016, the Bank introduced 28 new open-end investment funds to its range within the following asset classes: 1 money market fund, 8 bond funds, 13 equity funds and 6 multi-asset funds.

4.4 Online and Mobile Banking

Online Banking

The number of active Citibank Online users, i.e. those who logged in to the Citibank Online service at least once every 30 days, amounted to 320,000 at the end of the first half 2016, representing a slight increase compared to the corresponding period of 2015. The share of active Citibank Online users in the total portfolio of the Bank's clients amounted to 48% at the end of the first half of 2016.

As at the end of the first half of 2016, the number of digital users (i.e. those who used Citibank Online or Citi Mobile services on various devices at least once a month) reached 333,200, i.e. 50% of all consumer banking customers, an increase by over 2 p.p. in relation to the corresponding period of the previous year.

The share of transactions executed via the Internet or mobile banking channels in total banking transactions at the end of the first half of 2016 amounted to 97% and grew by 2 p.p. in relation to the corresponding period of 2015.

In the first half of 2016, sales of credit cards via online channels increased by 104% compared to the first half of 2015 and accounted for 32% of total sales of credit cards at the Bank. Online sales of cash advances and installment products increased by 208% compared to the first half of 2015.

In response to its clients' needs and the rapidly evolving local market conditions, the Bank commenced work on the project under which a new Citibank® Online transaction system will be developed. The project uses Agile methodology which means that it is implemented in several steps carried out in parallel and the various features and elements are implemented on quarterly basis. What is more, the system itself is being developed on the basis of the RWD (Responsive Web Design) technology. The platform has a modern and intuitive design, can be used on mobile devices and introduces many other innovative features that will be launched in subsequent implementation stages in the second half of 2017.

In June 2016, the Bank successfully completed the implementation of the first stage, which is currently being tested both by clients (through direct interviews at the laboratory) and by a group of selected bank employees. In compliance with the project methodology adopted, tests and interviews with users make it possible to introduce changes on the fly and select the best solutions.

Mobile banking

The number of active Citi Mobile users, i.e. users who accessed mobile banking at least once every 30 days, exceeded 78,000 at the end of the first half of 2016, an increase of more than 14,7% compared to the first half of 2015. The share of active mobile banking users in the total portfolio of Citi Handlowy consumer banking customers stood at more than 11%, which represents an increase by 1.5 p.p. over the same period of 2015.

Since the launch of the Citi Mobile banking system in May 2010, the application has been downloaded 230,000 times.

Direct acquisition

The Mobile Sales Department operates in six major Polish cities and in their vicinity. Mobile relationship managers acquire new customers for the bank during cultural and sporting events, at corporations and public administration units as well as in fixed locations such as airports, cinemas and gas stations.

Currently, there are 93 mobile relationship managers within the Universal Bankers channel.

The sales in the Bank's Universal Bankers channel in the first half of 2016 included:

- 6,605 credit cards, which is an increase of 51% compared to the first six months of 2015;
- 469 Priority Accounts compared to 309 in the previous six months. This translates to a growth of 52% compared to the previous period. Additionally, the portfolio of accounts acquired is of better quality as evidenced by the higher number of active accounts;
- PLN 48 million of cash loans. The Bank started to actively acquire credit products at the end of 2015 and this is an area where further growth is planned while optimizing costs.

4.5 Branch network

Smart Banking Ecosystem

As concerns its branch network, Citi Handlowy bases its customer acquisition strategy on different outlet types and formats that are tailored to individual target customer groups.

For the wealthiest customers served by the prestigious Citigold Private Client segment, there are dedicated outlets or separate areas at the Warsaw, Kraków and Gdańsk Branches. Affluent customers from the Citigold segment are served at the highest service quality level by their Personal Relationship Managers at Citigold Centers situated in nine major Polish cities. At the same time, the Bank has developed remote service processes, which allows it to offer to customers an ever wider range of transactions during phone conversations with the Relationship Manager or during meetings at any location, without the need to visit a physical branch. The Bank has also introduced new tools enabling the handling of Citigold products on iPads – without paper documents, using an electronic signature.

In the first half of 2016, the Bank was also present at the locations most frequented by its prospective customers, using stands and mobile sales points at popular shopping malls, cinemas, airports and gas stations. Citi Handlowy Relationship Managers also met customers during attractive marketing events and trade fairs. This strategy, involving banking products tailored to the needs of customers who travel frequently or spend their time shopping, will not change until the end of this year and will continue to be based on presence in popular locations that are most convenient for the Bank's customers who need its services.

Moreover, the Bank continued to implement its branch network optimization strategy. On the one hand, the Bank worked on improvements primarily within the framework of existing Smart outlets by continuously improving its processes and consistently implementing digitization to ensure even faster and more convenient customer service. On the other hand, in the first six months of 2016, the Bank discontinued the operations of nine traditional branches. In the case of three cities (Białystok, Toruń and Lublin), this resulted in it no longer being physically present in these markets. All customers affected by this change were referred to alternative access channels guaranteeing secure 24/7 access to the Bank's services and products via online, mobile or phone banking.

Number of branches and other points of sale / touch points at the end of the period

	30.06.2016 (1)	31.12.2015 (2)	30.06.2015 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**36**	**45**	**47**	**(9)**	**(11)**
HUB Gold	8	8	8	-	-
Smart HUB Gold**	2	2	2	-	-
Blue	9	18	20	(9)	(11)
Investment Center	2	2	2	-	-
Smart branch	14	14	14	-	-
Corporate branch	1	1	1	-	-

** Branches classified according to a type of provided services into: HUB Gold (branches with separate CitiGold customer service zones), Blue (branches without separate CitiGold zones), Investment Center and Smart.*

*** A new type of retail branches included in the reporting of third quarter 2014, due to the advent of the type outlets HUB Gold with a separate part of the Smart dedicated to serve customers primarily from the segment Citi Priority.*

5. Changes in information technology

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

In the first half of 2016, the following solutions were implemented:

- **in the institutional banking area:**
  - the implementation of electronic form modules for institutional clients;
  - the launch of the module to support trade credit in the trade finance services area;
  - the launch of Mastercard prepaid cards;
- **in the consumer banking area:**
  - the development of the CitiMobile platform for consumers – further changes to improve platform performance and functionality;
  - the implementation of a systemic solution to handle new investment funds (PZU, Fidelity) for consumer banking customers;
  - the implementation of new systemic solutions to handle the products and processes that were introduced to the Bank's range after starting collaboration with the Warta insurance company;
  - the optimization of consumer service channels – the porting of the CitiPlanner application to iPads;
  - changes in the collection process implemented in the COLLT application;
- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
  - the implementation of a new solution for calculating CIT, PIT and VAT due to tax changes;
  - the launch of the solution required to comply with FATCA regulatory reporting;
  - the systemic implementation of the requirements resulting from Recommendations P and W of the Polish Financial Supervision Authority;
- **in the area of the bank's ICT infrastructure and information security:**
  - the introduction of further mechanisms to secure the Bank's online platforms;
  - the deployment of WiFi infrastructure at further locations of the Bank;
  - the implementation of VOIP telephony at more Bank locations, including the upgrade of voice recording infrastructure for recording phone calls;

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

- **in the institutional banking area:**
  - the implementation of a new ECS+ platform for handling commercial cards for institutional customers;
  - the upgrade of the Prime/Online platform for prepaid card handling;
  - the continued development of the electronic trade finance service platform in line with business needs, including in particular the handling of high-volume clients;
  - the implementation of systems that support the work of the Financial Markets Sub-Sector in the derivatives area;
  - the implementation of the Standard Audit File for Tax as required by the Ministry of Finance as a product offered to clients in the bank statement area;
- **in the consumer banking area:**
  - the development of the online banking platform, in particular in order to improve customer experience;
  - broadening the scope of automatic transaction processing;
  - the optimization of SMART branches and the launch of alternative solutions such as SMART Mini or SMART Express;

- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
  - adapting SEPA payment handling to the regulatory requirements of the European Central Bank;
  - the implementation of the Know Your Customer platform in order to improve the process for identifying customers;
  - the implementation of the Standard Audit File for Tax functionality for the Bank as required by the Ministry of Finance;
- **in the area of the bank's ICT infrastructure and information security:**
  - the implementation of further new-generation security mechanisms such as anti-malware and SAD (Suspicious Activity Detection) in banking systems.

6. Equity investments of the Group

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2016, the Bank continued its earlier policy of equity investments. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase the market share, stimulate development of the Bank's relations and expand the Bank's offering; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

6.1 Strategic investment 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.

6.2 Portfolio of investments intended for sale

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

The strategic aims for the Bank with regard to such companies is to gradually reduce the Group commitment. The assumption is that individual participations will be sold whenever market conditions are most favorable. The portfolio of companies intended for sale locks capital without a predetermined rate of return. The Bank is not planning 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 swaps or acquired in the course of operating activities.

6.3 Special-purpose investment vehicles

As at 30 June 2016, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner's returnable contributions to capital and with their net profits.

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

According to information available as at the date of preparation of the financial statements, the (unaudited) main financial data of the companies in question as at 30 June 2016 were as follows:

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2016	Total equity 30 Jun 2016	Net financial result for the period of 1 Jan – 30 Jun 2016
		%	PLN '000	PLN '000	PLN '000
Handlowy - Inwestycje Sp. z o.o.	Warszawa	100.00	10,986	10,912	77
Handlowy Investments S.A.	Luksemburg	100.00	19,263	18,868	(50)

7. Other information about the Group

7.1 Awards and honors

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

- Citi Handlowy received the **"Ethical Firm" award from *Puls Biznesu***. In the 2nd edition of the daily's business competition, 15 companies were selected with the highest ethical standards that engage in comprehensive, systemic measures in order to build and strengthen an organizational culture based on values and that are the most active companies in Poland in this respect.
- **23 initiatives in the field of corporate social responsibility (CSR) launched by Citi Handlowy were featured in this year's 14th edition of the Responsible Business Forum report. "Responsible Business in Poland.** Good Practices" is the only publication summarizing the most important projects in the field of CSR in Poland.
- The Leopold Kronenberg Foundation at Citi Handlowy was awarded the title "**Benefactor of the Year**" in the "Corporate Foundation – Community Project" category. This title was awarded for the Foundation's Business in Women's Hands program implemented in cooperation with the Foundation for Women's Entrepreneurship.
- Citi Handlowy was also awarded the **White Leaf by the *Polityka* weekly**. This accolade goes to those companies which declare that they implement all of the most important management measures recommended by ISO 26000 and continuously improve their activities in this area to efficiently manage the impact of their business.

7.2 Social commitment of the Bank

The implementation of the Bank's corporate social responsibility strategy is coordinated by the **Leopold Kronenberg Foundation at Citi Handlowy** which supports initiatives undertaken for the public good on behalf of the Bank. In the first half of 2016, the Foundation's activities were focused on the programs conducted by it.

The implementation of these programs was as follows:

- **Hi-Tech Startup** is a project implemented by the Leopold Kronenberg Foundation at Citi Handlowy in cooperation with the Academic Business Incubators and the Institute of Applied Research of the Warsaw University of Technology. The project aims to commercialize technology concepts so that their creators have a chance to find employment in organizations interested in their technological solutions, are able to sell their ideas to investors or to start their own business. After passing a rigorous selection process, 10 projects were identified as "ready investments". During the final gala of the project in June 2016, the three most promising startups had their presentations.
- **Citi Handlowy Emerging Market Champions Award** – new program launched in 2014. The objective is to promote companies which are successfully expanding internationally. The project includes a survey of the business climate in Poland and the global potential of domestic companies. The competition was opened for entrants in the first half 2016. Work was also started to draft this year's survey questionnaire focusing on the international competitiveness of Polish companies.
- **Aleksander Gieysztor Award** is the most prestigious award given annually to institutions or individuals in recognition of their efforts for the protection of Polish cultural heritage. Winners of the 17th edition were Krystyna Zachwatowicz-Wajda and Andrzej Wajda. They were honored for promoting Polish culture with their outstanding achievements in the fields of film and theater as well as for increasing public awareness of the need to protect cultural heritage in Poland and for their contribution to its preservation and popularization.
- **Recovery of Polish Art** is a program which aspires to recover the cultural heritage lost by Poland during and in the wake of WWII. In the first half 2016, the Kronenberg Foundation 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:** the program under which the Foundation recalls the history of the Bank and the lives and achievements of its founders – the Kronenberg family. In the first half 2016, the measures initiated in previous years were continued. Since 2014, the digital archive created within the framework of the "Roots" program can be used for the Foundation's and the Bank's internal purposes. The archive contains more than 31,000 pages of scanned documents and pictures concerning the activities of Bank Handlowy and of the Kronenberg family. These materials are used for promotional purposes on special occasions – anniversaries related to the Bank and to Leopold Kronenberg.
- **Employee Volunteering Program of Citi Handlowy** aims to promote the social commitment of present and former employees of the Bank. In 2016, the 11th edition of the Citi Global Community Day was held. During the Community Day, 217 projects were implemented. Citi volunteers and their friends and acquaintances were engaged nearly 3,300 times, helping more than 30,000 people.
- The **Grant Program** is a competition through which the Leopold Kronenberg Foundation at Citi Handlowy supports the most valuable projects conceived by not-for-profit organizations in the area of education and local development. In the first half 2016, 6 grants were allocated.

VI. Key risk factors relating to the operations of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Key risk factors and threats relating to the Group's environment

1.1 Economy and macroeconomic environment

The outcome of the UK referendum, in which Britons opted for leaving the European Union, is a negative factor for growth prospects not only in the UK but also in the eurozone and in Central European countries. It is difficult to clearly determine future relations between the UK and the European Union, but the entire process as well as the results of parliamentary elections in EU countries, where parties from outside the political mainstream have gained considerable popularity, pose risks to the future shape of the Union and its budget. These developments could result in a significant decrease in the flow of EU funds to Poland, which would adversely affect economic growth prospects. The quality of financing sources in Poland's balance of payments would deteriorate and the increase in foreign exchange reserves would be halted, and their level may prove important if the issue of foreign currency loans is ultimately resolved.

The issue of converting foreign currency loans to ones in Polish zlotys has not yet been resolved and if the solution ultimately adopted significantly burdens the banking sector, this could threaten the stability of the financial sector, which would negatively affect the country's fiscal situation, lending and GDP growth. Moreover, the adoption of such solutions would most likely lead to Poland being downgraded by rating agencies, causing an increase in debt servicing costs and probably triggering a sale of domestic assets by foreign investors.

There is still uncertainty as to the scale of the economic slowdown and sustained macroeconomic stability in China, the outcome of U.S. presidential elections and geopolitical developments in Europe. This uncertainty may drag on global economic activity, and may in particular affect capital expenditure. Thus could adversely affect economic growth in Poland and its main trading partners, which could lead to cuts in interest rates and the weakening of the zloty.

The pace of monetary policy tightening in the U.S. remains a risk factor for emerging market assets, including Polish ones. If the U.S. central bank decides to raise interest rates faster than expected by the market, that could lead to increased outflows of capital from emerging markets, including from Poland.

1.2 Regulatory risk

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

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

- Banking Act of 29 August 1997;
- Act of 29 August 1997 on the National Bank of Poland;
- Civil Code Act of 23 April 1964;
- Commercial Companies Code Act of 15 September 2000;
- admissible concentrations of exposures and debt limits (Banking Act);
- maximum level of equity investments in the capital market (Banking Act);
- liquidity, solvency and credit risk standards (resolutions of the Polish Financial Supervision Authority);
- risk management at the bank (Banking Act, resolutions of the Polish Financial Supervision Authority);
- calculating and satisfying reserve requirements (NBP Act, Banking Act, resolutions of the Polish Financial Supervision Authority and resolutions of the NBP Management Board);
- regulations concerning taxes and related instruments;
- Act of 7 July 2005 amending the Civil Code Act and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such loan;
- Limits regarding the extension of mortgage-secured foreign currency loans set forth in Recommendation S and Recommendation S(II) of the Polish Financial Supervision Authority;
- Act of 16 February 2007 on protection of competition and consumers;
- Act of 23 August 2007 on counteracting unfair market practices;
- Act of 16 November 2000 on combating money laundering and terrorist financing;
- Act of 29 July 2001 on consumer credit;
- Act of 12 May 2011 on consumer credit;
- Act of 19 August 2011 on payment services;

- Act of 30 May 2014 on consumer rights;
- Act of 29 July 2005 on trading in financial instruments;
- Act of 27 May 2004 on investment funds;
- Act of 28 August 1997 on organization and operation of pension funds;
- Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into organized trading and on public companies;
- Act of 6 December 2013 amending certain Acts in connection with the determination of the terms of payment of pensions from the resources of open-end pension funds;
- Act of 14 December 1994 on the Bank Guarantee Fund (BGF);
- Act of 28 February 2003 – Bankruptcy Law, including so-called consumer bankruptcy;
- Act of 15 May 2015 – Restructuring Law;
- Act of 11 September 2015 on insurance and reinsurance activity;
- Act of 5 August 2015 on the handling of complaints by financial market participants and on the Financial Ombudsman;
- Act of 5 August 2015 on the macro-prudential oversight of the financial system and crisis management in the financial system;
- Act of 21 July 2006 on financial market supervision;
- Act of 15 January 2015 on bonds;
- Act of 9 October 2015 on performing the Agreement between the Government of the United States of America and the Government of the Republic of Poland to improve international tax compliance and to implement FATCA;
- Act of 15 January 2016 on the tax on certain financial institutions;
- Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 and European Commission implementing regulations ("EMIR").
- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 together with implementing legislation;
- Recommendation A of the Polish Financial Supervision Authority on the management of risks related to derivative transactions conducted by banks;
- Recommendation T of the Polish Financial Supervision Authority on good management practice concerning the risk of retail credit exposures;
- Recommendation I of the Polish Financial Supervision Authority on the management of foreign exchange risk at banks and rules of executing transactions subject to foreign exchange risk by banks;
- Recommendation M of the Polish Financial Supervision Authority on the management of operational risk at banks;
- Recommendation U on good practices in bancassurance;
- Recommendation D on the management of IT areas and ICT environment security at banks. The recommendation has replaced the previous Recommendation D. As compared to the previous version of Recommendation D, provisions have been introduce, *inter alia*, that concern the management of data (including data quality), principles of co-operation between business and technology areas, the management information system for IT, ICT security and cloud computing. Supervisory expectations have also been updated and clarified as regards strategic planning in the IT area and security of the ICT environment, implementation of new and modification of existing IT solutions, co-operation with third-party service providers and management of risks connected with ICT environment security;
- Recommendation P on the management of the banks' financial liquidity risk;
- Recommendation W on the management of the banks' risk of models;
- Resolution of the Polish Financial Supervisory Authority No. 584/2015 of 17 November 2015 on the issuance of a Recommendation concerning the security of online payment transactions executed by banks, domestic payment institutions, domestic electronic money institutions and credit unions.
- Guidelines of the Polish Financial Supervision Authority of 16 December 2014 on the management of IT and ICT security areas at pension fund management companies, insurance and reinsurance companies, investment fund management companies, entities providing capital market infrastructure, and investment firms. The guidelines are a version of Recommendation D on the management of IT and ICT security areas at banks adapted to the needs of individual sectors. The PFSA expects appropriate measures aimed at implementing the standards set forth in the guidelines to be implemented by the entities subject to supervision no later than by 31 December 2016. These guidelines apply to the Bank in the scope of Brokerage Services Management Unit operations as well as to the DMBH brokerage house;

- Guidelines of the Polish Financial Supervision Authority of 24 May 2015 concerning the provision of brokerage services on the OTC derivatives market. The guidelines are a supervisory interpretation of the legal acts setting forth the rules governing the sale of OTC derivatives. The purpose of the guidelines is to present recommended solutions with respect to OTC derivatives, including without limitation with regard to overseeing the sale of these products, conducting advertising, promotional and information activities, training sales staff, examining the suitability of products and the inclusion of certain types of clauses in their documentation. The PFSA expects that the standards described in the Guidelines will be implemented by the entities to which they are addressed no later than by 30 September 2016. These guidelines apply to the Bank's activities in the Financial Markets Sub-Sector (treasury activities) as well as to the Dom Maklerski Banku Handlowego S.A. (DMBH) brokerage house;
- Corporate Governance Principles for Supervised Institutions issued in PFSA Resolution of 22 July 2014. The Principles are a set of rules governing internal and external relations of institutions supervised by the PFSA including their relations with shareholders and clients, their organization, the internal supervision function and the key internal functions and systems, as well as statutory bodies and their cooperation. The Principles apply to the Bank as well as to the DMBH brokerage house.

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

- On 4 June 2016, the Act of 31 March 2016 amending the Act on investment funds and certain other acts came into force, which implements into the Polish law:

  1. Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010;
  2. Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions;
  3. and partly Directive 2013/14/EU of the European Parliament and of the Council of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision;
  4. Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS);
  5. Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings.

  The Act provides for a six-month grace period (i.e. until 4 December 2016) during which undertakings can adjust their activities to amended regulations.

  The above regulation is supplemented by:

  1. Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, which impacts the activity of depositaries. The Regulation of 19 December 2012 concerns, among others, the duties of the depositary in relation to alternative investment funds;
  2. Commission Delegated Regulation (EU) of 17 December 2015 supplementing Directive of the European Parliament and Council Directive 2009/65/EU in relation to the duties of depositaries. The draft Regulation of 17 December 2015 concerns the duties of depositaries in relation to open-end investment funds;

  Both the aforementioned EU regulations are directly applicable in Poland.

- On 23 December 2015, Regulation of the European Parliament and of the Council (EU) 2015/2365 of 25 November 2015 on the transparency of transactions financed with securities and re-use and amending Regulation (EU) No 648/2012 was published in the Official Journal of the EU (OJ L 337/1). The aim of the regulation is, *inter alia*, to increase the transparency of transactions financed with securities. It imposes a duty, among others, on counterparties (this term includes banks), investment companies (UCITS) and their managers, AIFM, to report to a trade repository any repo, sell/buy-back, securities lending transactions. The Regulation entered into force on 12 January 2016 but the obligation to report the transactions will take effect at the earliest from the beginning of 2017 depending on the date of entry into force of the implementing rules;
- On 12 June 2014, the MiFID II (Directive) and MiFIR (Regulation) (jointly "MiFID II") were published in the Official Journal of the EU. The MiFID II regulatory package comes into force in January 2018 (as a result of the original effective date being shifted) subject to any further changes in laws or delays in the implementation to the legal system. MiFID II will replace the MiFID I package currently in force (which includes MiFID 1 Directive, MiFID 2 Directive and MiFID Regulation). The MiFID II package will also include other implementing acts such as implementing and delegated regulations. The new regulations aim to build a more secure, reliable, transparent and more responsible financial system. MiFID II, in particular, makes changes in the structure of the organization and regulation of markets by introducing, where it is considered appropriate, among others, organized trading facilities (OTF) and multilateral trading facilities (MTF), greatly expands the existing principle of transparency in financial market transactions (transparency before and post-trade), strengthens the existing powers of EU and local regulators (including but not limited to EBA, ESMA, PFSA), including the regulators' powers of intervention as to the prohibition and restriction of certain activities in the financial market. An important part of the MiFID II package are the regulatory measures aimed at strengthening the protection of investors/clients through the introduction of organizational improvements in the protection of client assets and the area of product management (product governance), increasing the range of products covered by MiFID regulations, changes in the classification of clients, further strengthening the existing regulations regarding incentives (monetary and non-monetary benefits accepted or handed

over in connection with the service provided), management of conflicts of interest, and a number of other measures to ensure compliance with the rules of fairness and professionalism in services in the financial market;

- The new Act on the Bank Guarantee Fund, the deposit guarantee scheme and forced restructuring adopted on 10 June 2016. The Act is a consequence of the need to implement two EU legal acts: Directive of the European Parliament establishing a framework for the recovery and resolution of credit institutions and investment firms (BRR Directive) and Directive of the European Parliament and of the Council on Deposit Guarantee Schemes (DGSD). This Act will replace the existing Act on the Bank Guarantee Fund. The solutions introduced with regard to forced restructuring comprehensively regulate crisis management with respect to an entity which is at risk of insolvency through:
  - The establishment of the requirement to develop appropriate solutions at the stage of drawing up forced restructuring plans, including the determination of the requirement to maintain a minimum level of liabilities subject to redemption or conversion;
  - Defining the conditions and sources of financing for any actions taken;
  - Allowing the use of the full range of instruments, and
  - Giving the Bank Guarantee Fund the authority to provide various forms of support to the entity that assumes ownership instruments, property rights or obligations of the entity under restructuring.
- The Ministry of Finance draft act on mortgage loans of 25 May 2016 implementing Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, which should already have been implemented in March 2016.
- On 12 June 2014, the following were published in the Official Journal of the European Union: Regulation No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC – Market Abuse Regulation (MAR), and Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse – Market Abuse Directive (MAD). The adoption of the Market Abuse Regulation will entail among others:
  - Extension of the existing market abuse regulations, among others to include abuse of electronic trading platforms;
  - Introduction of a clear ban on abusive strategies based on high frequency trading;
  - Declaring those persons who manipulate reference rates such as LIBOR guilty of market abuse and penalizing them with severe fines;
  - Introduction of a ban on abuse in commodity markets and related derivatives markets, and strengthened cooperation among financial market and commodity market regulators;
  - Imposing fines of at least three times the gains from market abuse or at least 15% of turnover for enterprises (Member States may additionally decide to increase these minimum rates).

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

  The two-year preparatory period before the effective date of the MAR is meant to enable the issuer community to develop new reporting standards acceptable to the regulator.
- On 23 December 2015, the Directive of the European Parliament and of the Council (EU) 2015/2366 of 25 November 2015 on payment services in the internal market amending Directives 2002/65/EC, 2009/110/EC, 2013/36/EU and Regulation (EU) No 1093/2010 and repealing Directive 2007/64/EC (the so-called PSD 2) was published in the Official Journal of the European Union; its aim is to eliminate regulatory gaps in the field of payment services, to provide greater legal clarity and consistent application of the framework legislation throughout the European Union, to ensure a level playing field for existing and new market participants, allowing the dissemination of new payment methods among a wide range of users, to ensure a high level of consumer protection and, as a result, to improve the efficiency of the entire payment system and harmonize the market in the area of payment services. The deadline for transposing the directive into national law expires on 13 January 2018;
- On 4 May 2016, Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC was published in the Official Journal of the European Union. The Regulation entered into force on 25 May 2016 and shall apply from 25 May 2018. The regulation will change personal data protection rules in the European Union, and will supersede the Polish Act of 29 August 1997 on the protection of personal data.
- Draft Recommendation Z of the Polish Financial Supervision Authority concerning internal governance rules in banks. In the opinion of the Authority, the draft addresses a key issue from the point of view of sound and prudent management of banks, which is crucial for the proper functioning of the banking sector. The Recommendation contains provisions on the banks' business conduct, but also on the internal governing bodies of the bank, its employees as well as shareholders and stakeholders, especially clients of the banks and on building relationships in terms of:
  - Risk management – both the organization of the risk management system and the various essential elements of the risk management process;
  - Management of conflicts of interest, not only at the level of the members of the Management Board and the Supervisory Board, but also other employees of the bank;
  - Internal relations and external relations with clients – among others by defining the bank's applicable remuneration systems for all employees, codes of ethics or principles for introducing new banking products;

Relations with shareholders – including dividend policy, consistent with the strategy of the Bank's operations.

1.3 Competition in the banking sector

In the first half 2016, banks engaged in adaptation measures consisting of adapting their business models to new market conditions that increase operating costs. This led to increased competition in the areas that exhibit higher profitability such as e.g. cash loans for consumers. In the coming months, this trend towards redefining business models in order to reduce costs, moving away from less profitable market segments and intensifying competition in those segments and products that bring higher returns should be maintained.

Recent years brought an increased activity in the market of mergers and acquisitions in the financial sector. In the future, some consolidation efforts, particularly among medium-sized institutions, could be expected. The difficult situation of owners of certain financial institutions combined with the challenging market environment for the financial institutions operating in the Polish market is prompting some banks to exit the market altogether. The takeover of such businesses by the undertakings already operating in the Polish banking market may limit competition in the sector in the long term.

A significant risk to the banking sector is the still unsolved problem of mortgage loans denominated in foreign currencies. The measures proposed recently suggest that the resolution of this problem will probably be postponed, and in the near term, the banking sector will bear the costs of returning some of the spread previously charged to customers but without any forced conversion of the foreign currency loan portfolio.

An important challenge facing the banking sector is also the situation in the credit union (SKOK) sector. Some unions are subject to recovery proceedings under the supervision of the Polish Financial Supervision Authority, and their future remains uncertain. A possible bankruptcy of subsequent unions could mean the need to use even more funds deposited in the Bank Guarantee Fund. The obligation to supplement the funds used for this purpose will mostly burden the banking sector, which could adversely affect the results of financial institutions in subsequent years.

2. Key risk factors and threats relating to the Group and its operations

2.1 Liquidity risk

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

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

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

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

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and on its own account, and holds open foreign exchange positions within established limits. Therefore the Bank is exposed to foreign exchange risk. Control over foreign exchange risk is the responsibility of the Market Risk Department, which cooperates in this area with the Financial Markets Sub-Sector responsible for managing liquidity and foreign exchange position. Market risk of the Bank's proprietary positions was low in the first half of 2016.

2.3 Interest rate risk

As is the case with other banks operating in Poland, the Bank is exposed to a risk of mismatch between the timing of changes in interest rates on its assets and on the underlying liabilities (revaluation gap risk), as well as the risk that debt securities and interest rate based derivatives may be sensitive to market interest rate fluctuations (pricing risk). In terms of revaluation gap risk, interest rate risk may arise where it is impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. Conversely, this risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk may arise when changes in market rates have an adverse effect on the valuation of instruments in the trading book and, consequently, on the Bank's financial result, or on the valuation of the portfolio of securities available for sale and, consequently, on the Bank's equity. The management of interest rate risk is a responsibility of the Assets and Liabilities Committee of the Bank which, among others, determines the Bank's interest rate risk pricing policy. The interest rate risk level in the first half of 2016 was medium to high both for the trading book and the banking book.

2.4 Credit risk and counterparty risk

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

2.5 Operational risk

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

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

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

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

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

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

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

The total amount of gross operating losses booked in the first half of 2016 does not exceed the accepted operational risk appetite.

VII. Prospects for the development of the Capital Group of Bank Handlowy w Warszawie S.A.

1. General objectives for the Group development

In response to challenges made by complicated market circumstances, the Group focuses on areas, where it has significant competitive advantage, and this is where it takes a number of initiatives aimed at increasing the attractiveness of the services offered. In the retail client segment the most important initiatives include credit card market as well as services for affluent clients, while in the corporate segment the priority is given to the services for global clients and the largest local enterprises. Among other key areas of the Bank's business activities are: foreign exchange market, transactional banking, custody services and brokerage for institutional clients.

The main important tasks, that the Group is going to deal with are effective acquisition of new clients and deepening of relations with existing clients. The Bank is focused on acquiring operating accounts and increasing product coverage of the clients both in retail and corporate segment.

Innovation and top quality service are the pillars of the success of the strategy adopted by the Bank. This approach guarantees constant adjustments of the offer of services and products in manner that satisfy high and instantly changing clients expectations. It enables the Bank to effectively compete in the market for financial services and set new trends in the development of the banking sector.

The changes that take place on financial services market force the Bank to constant reshaping of the business model as well as offer to meet clients' needs and expectations. On one hand, a reduced frequency of visits to branches is observed and on the other hand the importance of remote channels in customer service is growing. The Bank, in order to respond to these changes, is continuing the process of optimizing the distribution network based on the concept of Smart outlets located in big cities. At the same time, the development of remote channels and increasing sales by using mobile solutions remain complementary element of adopted business strategy.

Strong capital position and high liquidity are key drivers of the clients' unwavering high confidence in the institution. They also determine the Bank's market advantage, leveraged in order to continuously improve the Bank's value. Investment in new technologies allows the Bank to develop and implement breakthrough innovations and to maintain a high quality of services provided while improving operational efficiency. This means that the Group can strengthen its existing market position. Clients, in turn, enjoy the benefits ensured by the global scope of Citi Handlowy, which provides services all over the world.

1.1 Institutional Bank

In line with the adopted strategy, the Bank focuses on three areas in the Commercial Banking segment. These include maintaining a leading position in the segment of international corporations, remaining a leader that serves the largest local companies as well as strengthening its position among SMEs. The Bank is planning to maintain its position by acquiring new clients and expanding relations with existing clients in selected sectors as well as by providing support to clients planning international expansion (Emerging Market Champions initiative). The goal of the Bank is to be the Strategic Partner for Polish companies and to actively support the expansion of Poland's industry. In terms of its product offering, the Bank also plans to further intensify cooperation with clients who have considerable potential to conduct foreign exchange transactions and are looking for customized cash management and trade finance products.

The Bank intends to enhance its efficiency by improving processes, focusing on innovations and raising the quality of its services. The successful implementation of these measures will allow it to maintain its leading position in the field of foreign exchange transactions, and will be reflected in the higher number of newly opened and maintained operating accounts.

Additionally, the Group considers securitization to be among the business areas that have recently gained importance. In its decision to invest in securitized instruments, the Group uses economic calculation, comparing the return on its investment against potential risks. Securitization is currently a standard and widely used product in global markets and its importance in the Polish market is increasing as well. The Group intends to become actively involved in this market segment.

1.2 Brokerage activities

In view of its considerable exposure to institutional and foreign investors, the activity of clients in these segments is a key factor affecting the results of DMBH. As concerns domestic institutional investors, of critical importance are inflows into investment funds, which mirror the climate in the stock market.

1.3 Consumer Bank

The Bank will still focus on these customer segments and products where it has the competitive advantage. This implies further growth in wealth management and relational banking, focused on the affluent (CitiGold) and aspiring affluent customer segments. In the Gold segment, the Bank will strive to consolidate its position as a leader and ensure that Citi Handlowy remains the bank of choice owing to its full range of banking products, auxiliary services, privileges and exceptional client-oriented service. In response to the needs of aspiring affluent customers, the Bank is launching the Citi Priority service. Product packages, a unique debit card, global privileges and a focus on digital customer service make the offer truly special and address the needs of customers for whom state-of-the-art technology, a global lifestyle and flexible access to banking services are key. Self-service Smart branches and new Citibank Online functionalities support such flexibility.

The leading position in the credit card market is the main competitive advantage of the Bank and generates customer acquisition. The main goal in this area is to maintain the leading position as measured by the number and volume of credit card transactions and to support the acquisition of new card clients by tailoring the credit card offer to the market environment and the customers' needs.

Along with the development of the modern Smart branch network, the Bank plans to implement further innovative technological solutions which will accelerate customer service and sales processes.

Along with the development of the modern Smart branch network, the Bank plans to implement further innovative technological solutions which will accelerate customer service and sales processes.

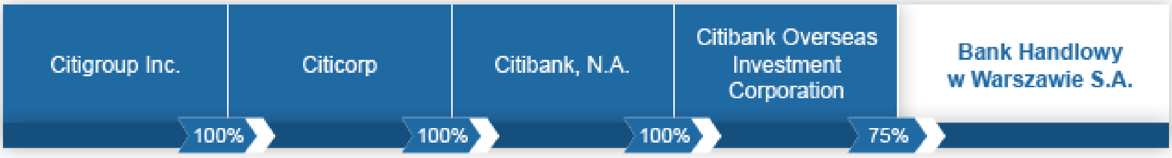
VIII. Investor information

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. In the first half of 2016, the number of shares held by COIC as well as its stake in share capital and in total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively.

The position of Bank Handlowy w Warszawie S.A. within the Citi Group structure is shown in the diagram below:



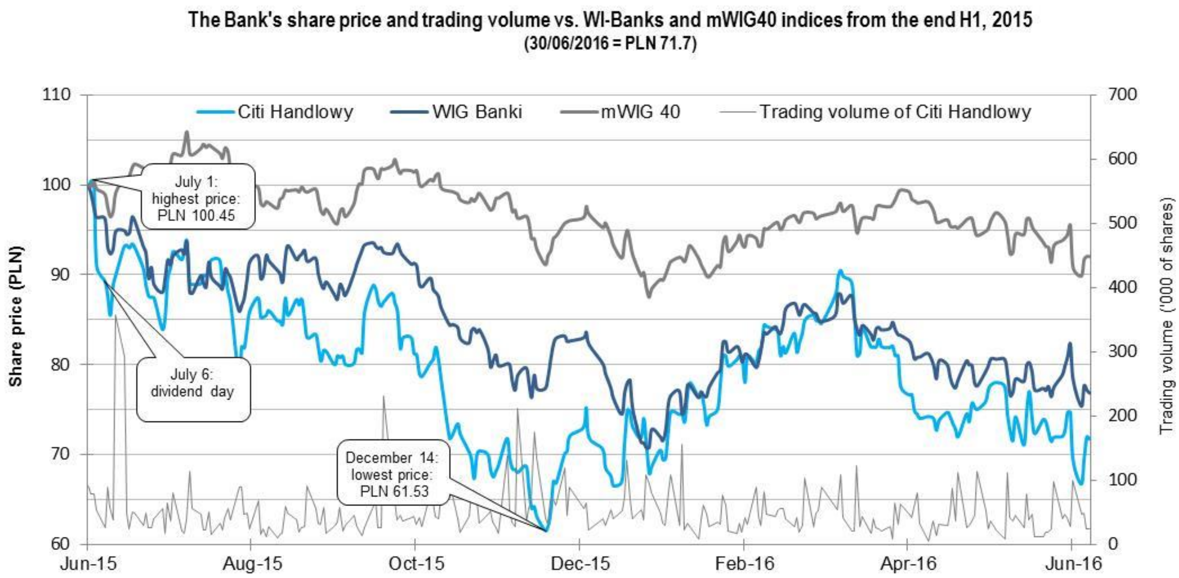
The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded and listed on the Warsaw Stock Exchange (WSE).

1.2 Performance of the Bank's shares on the WSE

The Bank's share price was PLN 71.70 at the end of the first half of 2016, a decrease of 28.3% YoY (i.e. compared to the closing price of PLN 99.96 on 30 June 2015). The WIG-Banks and mWIG40 indices also lost 23.1% and 7.9%, respectively, compared to the first half of 2015.

In the first half of 2016, the Bank's share price fell by 0.3%, i.e. much less than the WIG-Banks industry index, which lost 6.6%. The decrease in the value of WIG reflects the unfavorable sentiment towards the banking sector on the Warsaw stock market.

The Bank's highest share price since the end of the first half 2015 was reached on 1 July 2015 at PLN 100.45. The average share price of the Bank in the last 12 months was PLN 79.31 and the average daily turnover in the Bank's shares was approximately 51,000 shares.



As at the end of June 2016, the Bank's capitalization was PLN 9.4 billion (compared to PLN 9.4 billion as at 30 December 2015 and PLN 13.1 billion as at end of the first half of 2015). As at the end of June 2016, stock exchange ratios were as follows: P/E (price/earnings) – 14.4 (compared to 15.0 as at 30 December 2015 and 14.2 as at the end of the first half of 2015), P/B (price/book) – 1.4 (compared to 1.4 as at 30 December 2015 and 1.8 as at the end of June 2015).

2. Dividend

On 21 June 2016, the Annual General Meeting of the Bank decided to allocate 98.6% of 2015 standalone net profit to dividend payout, which means that the dividend per share was PLN 4.68.

The table below presents the history of dividend payments since 1997 when the Bank was floated on the Warsaw Stock Exchange.

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	970,800,828	7.43	7.43	99.9%
2015	611,486,928	4.75	4.68	98.6%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits.*
*** On June 18, 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008 following the recommendation of the Polish Financial Supervision Authority (KNF) for the whole banking sector.*
**** As recommended by the Bank's Management Board on March 3, 2016.*

3. Rating

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

As of June 30, 2016, the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits	A3
Rating for short-term deposits	Prime-2
Baseline Credit Assessments (BCA)	Baa3
Adjusted Basline Credit Assessments (Adjusted BCA)	Baa2
Long-term Counterparty Risk Assessment	A2
Short-term Counterparty Risk Assessment	Prime-1
Rating outlook for long term deposits	stable

As of June 30, 2016, the Bank had the following ratings awarded by Fitch:

Long–term Issuer Default Rating *Outlook*	A- Stable
Short-term Issuer Default Rating	F2
Viability rating (VR)*	bbb+
Support rating	1

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

4. Investor relations

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

- regular contacts with investors and analysts in the form of conference calls and meetings, also at the Bank's premises, attended by members of the Bank's Management Board;
- support of the Press Office during quarterly press conferences for the media held after the publication of interim reports;
- publishing on the website current information on the Bank and its projects, and all current and interim reports. The website also enables contacts with the Investor Relations Office which has a broad knowledge of the Bank and its Group of Companies.

IX. Corporate governance rules in the Group

1. Best practice at the Bank

Since 2003, the Bank has complied with the corporate governance principles approved by the Warsaw Stock Exchange ("WSE"), originally published as the "Best Practices at Public Companies 2002", and subsequently amended by the following documents: "Best Practices at Public Companies 2005" and "Best Practices for WSE Listed Companies 2008", and finally, as of 1 January 2016, "Best Practices for WSE Listed Companies 2016" ("Best Practices"), available at www.corp-gov.gpw.pl, the official website of Giełda Papierów Wartościowych w Warszawie S.A. dedicated to corporate governance at the companies listed on the WSE Main Market and on the NewConnect market.

The key objective of adopting corporate governance principles as a standard for the Bank's operation has been to establish transparent relations among all corporate bodies and entities involved in the Bank'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 operation of Bank Handlowy w Warszawie S.A., and especially of the relationships between the Company's statutory bodies and their processes, caused the Bank to adopt the best practices as set forth in the Best Practices.

After reading the "Best Practices for WSE Listed Companies 2016", the Management Board decided to declare that the Bank was willing to comply with the corporate governance principles contained in that document, which was adopted by the Supervisory Board of the Warsaw Stock Exchange by Resolution No. 26/1413/2015 of 13 October 2015, with the following reservations:

a) not applying Recommendation IV.R.1. (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. (general meeting in electronic format) subject to a decision being made by the Management Board prior to each such meeting;
c) not applying Principle VI.Z.2. (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).

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.

Furthermore, when convening the Annual General Meeting of the Bank in 2016, the Management Board decided that Recommendation IV.R.2 points 2) and point 3) contained in Chapter IV of Best Practices would not be applied; the Recommendation in question states that if this is justified due to the shareholding structure of the company or the expectations of shareholders reported to the company, and if the company is able to provide the technical infrastructure required for the smooth conduct of the general meeting by means of electronic communication, the company should enable shareholders to participate in the general meeting by using such means, 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.

In its decision, the Bank's Management Board considered the still existing legal, organizational and technical risks which may affect the proceedings of the meeting. These risks are associated with providing two-way communication to shareholders who do not participate personally in the meeting alongside with the means to exercise their voting rights from a location other than the venue of the meeting using means of electronic communication. These risks involve technical issues and data transmission delays which could prevent participants from speaking or voting or could lead to prolonged periods when the general meeting would be waiting for a single shareholder to communicate with the company or cast their vote by electronic means. Technical problems may generate the risk of shareholders' claims in respect of communication or the inability to vote at the meeting. It should be kept in mind that companies are in principle responsible to their shareholders for the efficient conduct of the general meeting. In practice, the use of new techniques related to the participation of shareholders in general meetings at public companies, including banks, is not common.

Notwithstanding the foregoing, the Bank will broadcast the 2016 Annual General Meeting online, and will also record the meeting and publish its transcript on the Bank's website after the meeting has been completed.

By resolution dated 22 July 2014, the Polish Financial Supervisory Authority issued a document entitled Corporate Governance Principles for Supervised Institutions ("Principles").

The Principles are a set of rules governing internal and external relations of institutions supervised by the PFSA including their relations with shareholders and clients, their organization, the internal supervision function and the key internal functions and systems, as well as statutory bodies and their cooperation.

These principles are meant to improve the level of corporate governance at financial institutions and to increase their transparency which is supposed to contribute to strengthening confidence in the financial market in Poland.

On 9 December 2014, the Management Board of Bank Handlowy w Warszawie S.A. declared the Bank's willingness to comply with the Principles. On 18 December 2014, the Supervisory Board accepted compliance with those Principles that fall within the remit of the Supervisory Board.

With regard to three principles it was decided not to apply them:

a) para. 11.2 (related-party transactions) – this principle will not be applied to agreements concerning ongoing operating activity, and in particular to those related to liquidity due to the nature of such transactions and the number of signed agreements.

b) para. 8.4 (general meeting in electronic format) – the IT solutions that are currently available do not guarantee the security and efficiency of electronic general meetings. 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.

c) para. 16.1 (Polish as the language of Management Board meetings) – Management Board meetings held with the participation of foreigners, and especially foreign members of the Management Board who do not speak Polish, are held in English. At the same time, all motions examined at Management Board meetings as well as all materials and minutes of the meetings are drafted and archived in Polish and English.

The statement of the Bank's Management Board on applying corporate governance principles at the Bank in 2015 is a separate part of reports on the activities of the Bank and the Bank's Group of Companies for 2015. The statement includes the information indicated in the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-Member State (consolidated text: Journal of Laws [Dz. U.] of 2014 item 133).

It should be stressed that the willingness to ensure transparency of the Bank's operations, and especially of the relationships between the Company's statutory bodies and their processes, has resulted in the introduction of the best corporate practices listed below at the Bank.

1.1 Transparency

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

- The Bank has been publishing its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;
- at least half of the members of the Supervisory Board, including its Chair, are Polish citizens, and the Supervisory Board includes independent members;
- as part of the Supervisory Board, Audit Committee has been established, which is composed of two independent members of the Supervisory Board, one being the Committee's Chair;
- the compensation of the members of the Company's governing bodies is adequate to the size of the Company and reflects their scope of responsibilities;
- all important internal regulations, as well as documents and information relating to the General Meetings of Shareholders of the Bank, are available at the head office of the Bank and on its website.

1.2 Protection of minority shareholders

The Bank ensures adequate protection of minority shareholders' rights within the limits imposed by its corporate status and the associated primacy of the majority rule principle. In particular, to ensure the 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;
- The Bank may hold a General Meeting in a manner allowing its shareholders to participate in the General Meeting using electronic means of communication;
- representatives of the media are allowed to be present at General Meetings of Shareholders;
- according to the adopted practice, all important materials required for the General Meeting of Shareholders, including draft resolutions with their justification and the Supervisory Board's opinion, are made available to shareholders at least 14 days before the date of the General Meeting at the Bank's head office and on its website;
- the General Meeting of Shareholders acts according to 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.

2. Best practice in Dom Maklerski Banku Handlowego S.A. and Handlowy Leasing Spółka z o.o.

Dom Maklerski Banku Handlowego S.A ("DMBH") and Handlowy Leasing Spółka z o.o ("HL") are not public companies, therefore they are not required to follow Best Practices for WSE Listed Companies 2016 or make any statements in that respect; however, due to their important role in the Group of Companies, the following circumstances should be considered.

DMBH is a member of the Brokerage House Chamber and as such it must follow the Code of Best Practice of Brokerage Houses developed by the Brokerage House Chamber. The Code does not regulate corporate governance matters, but primarily concerns rules pertaining to business secret protection, relations with customers and the conduct of brokerage house employees, including in 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 observes certain elements of corporate governance resulting from the Act and its implementing regulations. Among others, pursuant to Article 103 of the aforementioned Act, the Management Board should include at least two members with university degrees, at least three years' working experience in financial institutions and good professional reputation. The Management Board should include persons who have the knowledge, skills and experience required to manage the brokerage house, including with respect to risk management, taking the scope, scale and complexity of its operations into account. The Polish Financial Supervision Authority is informed by DMBH of changes in its 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 and on certain resolutions of the General Meeting of Shareholders). The aforementioned Act also regulates the issue of buying shares of the brokerage house and provides that the brokerage house must have its head office in the territory of Poland.

Since 1 January 2015, DMBH has been subject to the Corporate Governance Principles for Supervised Institutions ("Principles") adopted by PFSA resolution of 22 July 2014. On 23 December 2014, the Management Board of DMBH declared DMBH's willingness to comply with the Principles, and the Supervisory Board accepted compliance with those Principles that fall within the remit of the Supervisory Board.

Three Principles are not applied by DMBH:

a) para. 11.2 (related party transactions) – this principle will not be applied in respect of agreements relating to current operating activities;

b) paras. 22.1 and 22.2 (independence of the members of the supervisory body) – these principles are not applied taking into account the current composition of the Supervisory Board.

HL operates as a leasing company. HL operates in accordance with the Commercial Companies Code. HL has a Supervisory Board despite the fact that there is no relevant statutory requirement, in order to ensure continuous supervision of the company's operations.

3. Governing bodies of the Bank

3.1 Changes in the composition of the Management Board and Supervisory Board during the first half of 2016

3.1.1 Changes in the composition of the Management Board during the first half of 2016

In the first half of 2016, the Bank's Management Board consisted of:

Sławomir S. Sikora	President of the Bank's Management Board
David Mouille	Vice-President of the Bank's Management Board
Maciej Kropidłowski	Vice-President of the Bank's Management Board
Barbara Sobala	Vice-President of the Bank's Management Board
Witold Zieliński	Vice-President of the Bank's Management Board
Katarzyna Majewska	Member of the Bank's Management Board since 11 January 2016
Czesław Piasek	Member of the Bank's Management Board

On 3 December 2015, the Bank's Supervisory Board decided to appoint Ms. Katarzyna Majewska Member of the Bank's Management Board for a three-year term of office as of 11 January 2016.

3.1.2 Changes in the composition of the Supervisory Board during the first half of 2016

During the first half of 2016 the Supervisory Board of the Bank consisted of:

Andrzej Olechowski	Chair of the Supervisory Board
Shirish Apte	Deputy Chair of the Supervisory Board
Igor Chalupec	Member of the Supervisory Board
Jenny Grey	Member of the Supervisory Board from 21 June 2016
Mirosław Gryszka	Member of the Supervisory Board
Frank Mannion	Member of the Supervisory Board
Dariusz Mioduski	Member of the Supervisory Board until 30 June 2016
Anna Rulkiewicz	Member of the Supervisory Board
Anand Selvakesari	Member of the Supervisory Board from 21 June 2016
Stanisław Sołtysiński	Member of the Supervisory Board
Zdenek Turek	Member of the Supervisory Board
Anil Wadhwani	Member of the Supervisory Board until 20 June 2016
Stephen Volk	Member of the Supervisory Board

The following Members of the Bank's Supervisory Board tendered their resignations: Mr. Anil Wadhwani on 20 June 2016 and Mr. Dariusz Mioduski on 30 June 2016.

On 21 June 2016, the Annual General Meeting of the Bank appointed Ms. Jenny Grey and Mr. Anand Selvakesari Members of the Supervisory Board for three-year terms of office.

3.2 Rules of appointing and dismissing members of the Management Board

The Management Board consists of five to nine members. Each member of the Bank's Management Board is appointed by the Supervisory Board for an individual term of office of three years. At least half of the members of the Management Board should be of Polish nationality. The term of appointment of a Management Board member expires:

- 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;
- upon death of the Management Board member;
- upon dismissal of the Management Board member;
- upon resignation of the Management Board member, submitted in writing to the Chair of the Supervisory Board.

3.3 Rights of the Management Board members

The Management Board makes decisions in matters concerning the Bank by way of resolutions, provided that decisions in such matters are not reserved for other governing bodies of the Bank by law or the Articles of Association.

By way of resolutions, the Management Board:

1) defines the Bank's strategy;
2) establishes and abolishes the committees supporting the work of the Bank and defines their mandates;
3) decides the Management Board's bylaws and submits them to the Supervisory Board for approval;
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 time limits defined by the General Meeting of Shareholders;
6) appoints holders of general commercial power of attorney, attorneys and attorneys with powers of substitution;
7) decides in matters defined in Management Board bylaws;
8) makes decisions on matters brought by the President, Vice-President or Member of the Management Board;
9) independently decides on purchase or sale of real property, or on perpetual usufruct of, or share in, real property;
10) passes a resolution on the Bank's annual financial plan, accepts investment plans and reports of implementation of such plans;
11) accepts reports on the Bank's operations and financial reports;
12) formulates decisions regarding distribution of profit or coverage of losses;
13) approves the Bank's human resources policy, credit policy and legal principles of its operations;
14) approves the rules of the Bank's equity management;
15) approves the employment structure;
16) establishes the basic structure of the Bank's organization, appoints and dismisses Heads of Sectors, appoints and dismisses Heads of Divisions, and makes decisions on their competences;
17) establishes the audit plan at the Bank and accepts audit reports;
18) resolves other issues which, according to the Articles of Association, are submitted to the Supervisory Board or the General Meeting of Shareholders;
19) makes decisions on contracting liabilities or disposing of assets, when the total value of such liabilities or assets in relation to a single entity exceeds 5% of the Bank's own funds, or appoints authorized persons to make such decisions; however, in matters within the powers of Committees appointed by the Bank the decisions are made after consulting the relevant Committee.

The Bank's Management Board designs, implements, and ensures the operation of, the Bank's management system as well as designs, implements and updates written strategies and procedures, and undertakes actions relating to the system of risk management, internal controls and internal capital assessment as well as reviews of the internal capital assessment and maintenance processes.

4. Other principles

4.1 Information on owners of securities with special control rights towards the Bank

All shares issued by the Bank are common bearer shares and have no special control rights related to them.

4.2 Limitations regarding transfer of ownership of the Bank's shares or exercising the voting rights relating to the Bank's shares

Beside limitations stipulated by the Banking Law (Article 25 et seq.), the Bank's Articles of Association put no limitations with regard to transfer of Bank's shares.

X. Other information on the Bank's governing bodies and management principles

1. Information on the total number of the shares of the Bank held by Management Board or Supervisory Board members

According to the information available to the Bank as the parent company, the Bank's shares are held by the following members of the Management Board and Supervisory Board of the Bank:

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2015	Number of shares as at the day of submitting the previous quarterly interim report for Q1 of 2015
Andrzej Olechowski	Chairman of the Supervisory Board	2,200	2,200
Total		**2,200**	**2,200**

Members of the Management Board and Supervisory Board of the Bank do not have any Bank share options.

2. Information on any agreements between the Bank and the Management Board members that provide for compensation in case of resignation or dismissal of such members without a valid reason, or when such dismissal is a result of a merger or acquisition of the Bank

Of all employment agreements between the Bank and members of the Management Board of the Bank, there is only one agreement with a member of the Management Board that provides for financial compensation in case of termination of such agreement with a notice.

Each member of the Management Board has a separate non-competition agreement signed with the Bank. The agreement stipulates that within 12 months from the date of termination of employment (6 months for one member of the Management Board), the Management Board member shall refrain from undertaking any competitive activities against the Bank. In exchange for such restrictions, the Bank shall pay an adequate compensation to such a member of the Management Board.

3. Management policy

During the first half of 2016, no changes in the management principles were made. The management principles are outlined in the Note to the Interim Condensed Consolidated Financial Statements of the Capital Group of Bank.

XI. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Management Board of the Bank, composed as at the date of preparation of the financial statements of: Mr. Sławomir S. Sikora – President, Mr. Maciej Kropidłowski – Vice President, Mr. David Mouillé – Vice President, Ms. Barbara Sobala - Vice President, Mr. Witold Zieliński – Vice President, Mrs. Katarzyna Majewska and Mr. Czesław Piasek – Member, the semi-annual financial data and comparative data presented in the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2016" and the "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2016" were prepared in accordance with the applicable accounting principles and give a true, fair and clear picture of the assets and the financial standing of the Bank and the Group as well as the financial result of the Bank and the Group. The "Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2016", contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2016.

Selection of the auditor authorized to audit the financial statements

The licensed auditing firm PricewaterhouseCoopers Sp. z o.o., which reviewed the "Condensed Interim Standalone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2016" and the "Condensed Interim Consolidated Financial Statements of the Group of Companies of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2016", was appointed in accordance with applicable laws. The firm and the statutory auditors who performed the review satisfied the conditions necessary for issuing an objective and independent report on the review of those statements, in accordance with applicable laws and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-Member State (Journal of Laws [Dz. U.] of 2014 item 133, as amended) was provided in the Condensed Interim Consolidated Financial Statements of the Bank's Group of Companies.

Members of Management Board signatures

Date	Name	Position/Function	Signature
23.08.2016	Sławomir S. Sikora	The President of Management Board	....
23.08.2016	Maciej Kropidłowski	Vice-president of Management Board	....
23.08.2016	David Mouillé	Vice-president of Management Board	....
23.08.2016	Barbara Sobala	Vice-president of Management Board	....
23.08.2016	Witold Zieliński	Vice-president of Management Board, Chief Financial Officer	....
23.08.2016	Katarzyna Majewska	Member of Management Board	....
23.08.2016	Czesław Piasek	Member of Management Board	....